

COMMITTEE ON FINANCE

May 31, 2001

6:00 PM

Mayor Baines called the meeting to order.

Mayor Baines called for the Pledge of Allegiance, this function being led by Alderman Pinard.

A moment of silent prayer was observed.

The Clerk called the roll.

Present: Aldermen Wihby, Gatsas, Levasseur, Sysyn (late), Pinard, O'Neil Lopez, Shea, Vaillancourt, Pariseau, Cashin, Thibault, and Hirschmann

Absent: Alderman Clancy

Presentation to be made by McGladrey & Pullen, LLP of the City's FY2000

Audit Report.

Mr. Scott Bassett stated the package that went out to you earlier this week contained three documents. It contained what I consider our audit committee letter, which is a requirement under Government Generally Accepted Audit Standards that we tell you what we were hired to do and that you are able to appropriately discharge your professional responsibilities. Also in that package was a draft management letter and thirdly were the draft general purpose financial statements of the City. I would like to start off with that audit committee letter, which defines the responsibilities that I have as the independent auditor for the City of Manchester. When we were hired over a year ago now, what you hired us to do was perform an audit on generally accepted audit standards. We were able to do that. We also performed an audit in accordance with government auditing standards and had no material weaknesses or compliance findings under those standards. As you know, an audit does not give absolute assurance to the financial statements that are prepared by management but what our job is is to give a pine on the statements and say that they are free of material misstatements. That was the goal and I believe we have achieved that goal. During the year, significant accounting policies, other than the transition of the School District, one of the larger accounting policies that was adopted this year was that the City increase its

threshold for capitalizing fixed assets. Basically, the general fixed asset account group had accounted for assets greater than \$500. We moved that threshold up to \$5,000 and eliminated in excess of \$9 million of fixed assets from the financial report. In my opinion, that was the right move. I think with this new accounting standard coming out, a City the size of Manchester could go even higher under what is being presently encountered by other cities. As you know, the statements are full of management judgements and accounting estimates. The significant accounting estimates in these statements are you actuarial statements, your collectability of accounts receivable, and also you have some contingent liabilities out there as far as outstanding litigation goes. There is really no significant audit adjustments that were made by us during the year. Everything really came from the City side and obviously we had some adjustments pertaining to the School District. We encountered no disagreements with management during the course of the audit and I do not know of any other consultations that management went to seek as far as any accounting policies or procedures. Prior to retention, management did not discuss any type of emerging accounting issues and we performed no significant management advisory services during the year. That is really what we were hired to do. Basically we came in and when I first proposed on this audit the goal was to get the statements so we could submit them to the GFOA and seek the certificate and financial reporting. We didn't make it this year based on some timing issues. Those reports would have to be in six months after year-end. I do believe that based on how the reports are prepared right now, you would get that certificate if we did not miss the filing deadline. Our goal for next year is to have these statements out prior to that deadline and to get the award. With that said, we can go into the bigger document and talk about the financial results for the City audit for the year ending June 30, 2000. At this time, the report has been through our primary review. We are basically dotting the I's and crossing the T's. There are significant changes in presentation from the prior year so what we are doing now is going through our final process of making sure that everything goes forward and comes back and agrees to it. At this time, I can say that we are going to give an unqualified opinion on the primary government of the City. However, our opinion will state that we take no responsibility for the audits performed by the other auditors. They are included in the reporting entity, but those numbers are based on the audit and the opinions of other auditors. As you know, the School District has issued an audit and there was a qualification about an uncertainty in there. We will mention that, but the uncertainty was not material enough for McGladrey & Pullen to qualify their opinion on the financial statements of the City. We also issued a report on the internal controls for the primary government and that report on internal controls disclosed no material weaknesses or reportable conditions throughout the City. Turning to the balance sheet, which I believe is Page 24 and 25 of that document, and I am really only going to comment on the primary government and I would be happy to entertain any questions you may have as we go page by page to facilitate the process so

please don't hesitate to interrupt me as we go through or ask any questions. I encourage that. At the year-end, June 30, 2000, 11 months ago, the City's cash balance was approximately \$70 million. \$28 million of that money remained in the general fund. \$29 million remained in the Enterprise fund. We also had a restricted \$12 million in cash and that was mainly due to the covenant that we had with the revenue bonds associated with the Airport, the aviation fund. Investments for the year-end, we had restricted investments of approximately \$71 million. Those, again, with the Enterprise funds were mainly repurchase agreements classified as investments for balance sheet purposes. The undesignated fund balance for the City, if you turn to the next page, 26 and 27, at the end of the year was \$2.2 million. Now truly a measurement of that is when you go to rating agencies is to take that against the prior year expenditures and see what the percentage of that is. That represents approximately 2.5%. I don't believe in the City of Manchester you could measure that strictly on that undesignated fund balance because of the revenue stabilization reserve that is part of your Charter. What you have to do is take a look at those combined numbers together and at that point you are over 10%, which is definitely within the limits and is a very favorable result for the City. We have to reserve it because it is under Charter, but you have to put those two numbers together when you are benchmarking against other communities and where their fund balance sits. I don't think it is extreme. I think it is right where...you may be in the range of where you want to be, 5% to 10%. Either side of that range is basically a policy decision in where that falls. We had encumbered an additional \$1 million for encumbrances, basically commitments out there that we had not received the goods for as of yet. We had long-term receivables in the general fund of \$1.5 million, which relates to the collection of the civic center advance from MHRA. Turning to Pages 28 and 29, while preparing this report it was difficult to compare to previous years for the obvious reason so I just wanted to highlight a couple of things. The general fund of the City of Manchester...I apologize. I guess the reports that you have and I have have different page numbers. This would be Page 6 and 7 that I am referring to now. It shows the operating results of the City under the GAAP basis. The general fund had revenue overexpenditures of \$5.4 million, which increased your fund balance from \$10.367 million to \$15.841 million. The capital project fund had \$16 million in expenditures and we took in approximately \$36 million of long-term debt during the year. There wasn't one large project that made up the \$16 million. They ranged in size from \$100,000 to \$3 million within that \$16 million. The overall results were positive. Turning to Pages 8 and 9, this presents the business like activities of the City. Obviously, the largest component of that is the Aviation Fund, Water Works and EPD, which are classified under Enterprise funds. Those funds had a net income this year of approximately \$15 million. The make-up of that was \$1.3 million from Water Works, \$5 million from EPD and \$9.3 million from Aviation and a loss of \$737,000 from Recreation. Again, positive results and I think growth too as it relates to those funds. Page 11

of your report presents the budget to actual results of the City as far as the budget that was adopted in May of 1999 I guess and the results to that budget. With that, I guess there are a couple of variances I would bring to your attention. We had the variance with other revenue. We had budgeted \$7.8 million and we took in \$6.5 million with an unfavorable variance of \$1.3 million. That was mainly caused by the chargebacks that were being discussed between the Manchester School District and the City. Even though I believe it was resolved in the School District's audit, it was our opinion that the money was not available and under GAAP it has to be both measurable and available. We knew what the number was, but with the delay of receiving that money and all of the issues that were discussed, it wasn't really available to finance the current operating activities of the City. You can measure that anywhere between 60 and 90 days. That was the major variance there. On the other side with licenses and permits, we had a positive variance of \$1.3 million.

Alderman Shea stated I am not following you.

Mayor Baines stated if you turn to Page 11, right at the top of the page he is talking about revenues. He is on licensing and permits.

Mr. Bassett stated the favorable variance really in the general fund was from licenses and permits and had to do with auto registration fees being more than had been anticipated. The next session...well I will speak a little bit about the pension trust fund. It was presented as of December 31, 1999. It was audited by other auditors but as you can see there, we increased the net assets of all of the pay pension benefits under the new system by approximately \$10 million during the year. Those are the financial results of the City...condensed financial results of the City. The next portion of the report has to do with notes to the financial statement, but if anybody has any questions on the balance sheet or the operating results of the City, I would be happy to entertain those now. The notes, although it is the hope that they are simplified and definitely reader friendly, I don't know if we got there with all of the requirements that we have but I will walk you through the notes and just let you know what we are talking about and what may be a change from the prior year as far as presentation purposes. The first note, on Page 13, describes the reporting entity and this year obviously we had a discussion about the School District being a separate component unit. It also talks about the accounting policies within the City...the significant accounting policies that the City maintains. Those are pretty consistent from the prior year. We talk about bases of accounting and pension trust funds and things of that nature in our restricted investment. I guess the note I would lead you to would be on Page 20 where we talk about the revenue stabilization and just what that means. I think that changed a little bit based on the original ordinance and the fact of the transition issues with the School District of really what that meant. We talk about

that as far as the general fund and the operating budget of the City as a whole as far as what is reserved. That may have to be looked at and be a little bit more redefined or clarified now that the School District is a separate component unit and let that spell out exactly what we are trying to get to. On Page 25 we present cash, cash equivalents and investments of the City and what type of investments and deposits where the funds were kept during the year. The bulk of the funds are in repurchase agreements and some unclassified cash or some pulled income accounts maintained by the state. Our categorization is quite good as far as the funds. Where are they invested? Are they safe? GASB has developed some categories for those and if you take a look at yours with A being the highest, the bulk of your funds sit there. Page 26 speaks to the investments or the classification investments within the City. There again, category 1 being the best and category 2 and 3...you will see that \$82 million of the \$98 million are in category 2 and the bulk of that would be repurchase agreements again. Again I think that if you asked me, these are safe vehicles to be invested in. We also have a responsibility to talk a little bit about what makes up the cash and cash values of the component units strictly taken from other auditor's reports on Page 27. On Page 31, note 7, property and equipment, you will see there that the balance as of June 30, 1999 has been restated. The restatement was caused by the transition or the movement of equipment, school equipment, over to the School District. Basically we had accounted for that portion in the City's financial statements in the prior year and because of transition issues, they no longer were assets of the City but of the School District as far as equipment only. We do state in the footnote that for school buildings and improvements and such it is the opinion of the City that they remain the property of the City and we have disclosed that. If you turn to Page 33, we talk about the long-term debt account group of the City, i.e. bonds payable, compensated absences, landfill closure and post-closure care costs. We have bonds outstanding, excluding revenue bonds and bonds maintained by the Enterprise funds of \$127 million. Landfill closure costs of approximately \$20 million that we have to accrue for and an additional \$37 million in general obligation bonds at the Enterprise fund and \$213 million in revenue bonds outstanding for the various Enterprise funds. On Page 34, one significant entry or development or unusual accounting issue that came up during the course of the audit was the civic center and how that is and will be accounted for in the future. We felt that we should get some type of disclosure in there to describe their relationship with MHRA and what the transaction will account for. I guess what confused us a little bit was whose debt was it. Was it the City's debt or did it remain with the outside agency? We had to take a look at this agency to determine if it was a component unit or not of the City. In both instances, we determined that the debt was not that of the City and that it did not qualify as a component unit. We do have some operating lease agreements that we do disclose in here and maybe once the project is completed we will have some figures to put in here as far as operating leases going forward. Note 10 is on Page 36 and 37.

We talk about the employee benefit plan. The items there that I look at are the funded ratio. On the new system we have a crude liability or an actuarial liability of \$79 million and the value of those assets as of December 31, 1999 on an actuarial basis was \$82 million. Basically, a funded ratio excess of 100%. Again, one of the things that an agency will take a look at as far as how you are making your contributions and how you are funding a plan. Again, both positive results there. We get in a little bit about the old system on Page 38. As far as finishing up the report, we had to go back and talk to the actuary. There was a reporting change back in 1998 that dealt with reporting the accrued liability of the pension plan. is developing some numbers right now that may impact what we record in the general long-term debt on the old system. It would be a favorable impact as far as reporting wise on the general long term debt account group, but the number to look at there is still the unfunded actuarially accrued liability of \$22 million as of July 1, 2000. On Page 42, there is a brief disclosure regarding the Manchester School District and the Superior Court decision and the fact that there is outstanding litigation as far as transitional issues go as far as debt transaction. I do not think it will have a material impact, the outcome, no matter which way it goes. I cannot tell you which way it will go, but I think it is the opinion of the City that it won't have a material effect on the City's financial statement. On Page 43, something that we will be talking about here over the next couple of years is the GASB 33 and 34 and where they are going to change the format of these statements and some accounting requirements as we talked about infrastructure assets, appreciation of fixed assets, and full accrual accounting. MDNA is to be presented by management. Big changes beginning with the year July 1, 2001 which is really the first year that you start with the balance sheet, which is a month away, and will be under these new reporting standards. That is really my presentation. What I try to do when I present reports is I like to present the financial results of the City in one meeting and then go to our management comments in the next. I just think that both are important and I would like to concentrate on one at a time so we don't confuse the issues. We talked about the financial results and then we can talk about some recommendations that we may have at the next meeting.

Presentation to be made by Melanson Heath & Company, PC of the
Manchester School District's FY2000 Audit Report.

Mr. John Sullivan stated what I intend to do is just very quickly talk about the School's financial statements and then take a look at the management letter. My understanding is that all of the members of the Board of Mayor and Aldermen have copies of the financial statements as well as copies of a previous draft of the management recommendation letter. I will try to be brief in my presentation and allow plenty of time for questions. In the financial statements, the two significant numbers that everyone has been focusing on for some time now have to do with

the School's deficit numbers. The last time I was here I indicated that there were two deficits frequently referred to. One is the fund balance deficit that on Page 3 of the financial statements for the School consists of a little in excess of \$2.5 million. That fund balance deficit was created from basically two avenues. First is the operating deficit, which we will look at later. A combination of excess revenue collections and appropriation deficits netted out to about \$2 million so the \$2.5 million fund balance deficit that you see, \$2 million of that comes from the operating deficit. The other \$500,000 comes from prior year 1999 and prior year tuition receivables that were in fiscal year 2000 determined to be uncollectable and have been written off. Those receivables are subject to the declaratory judgement and contention as to whose receivables those are and who should be funding the write-off, but consistent with the School's position of reporting conservatively, the School's financial position, the School has recognized the loss for those tuition receivables. I also want to indicate our audit opinion does contain an exception. It is a qualification and that qualification revolves around the declaratory judgement and the impending lawsuit. From the School's perspective, the financial statements need to be looked at with an eye that the outcome of that declaratory judgement may have a material impact on the financial statements. I don't know how that was handled in the City's overall audit opinion, but in the School's audit opinion there is an exception that says except for the ultimate impact of the lawsuit the School's financial statements are fairly presented. On Page 5 of the financial statements is the budget-to-actual analysis and this is the general fund without Food & Nutrition. The Food & Nutrition fund is reported separately on Page 6 so if the total budget looks short of the \$100.5 million that you are used to seeing it is only because School Food & Nutrition is on Page 6. Overall from a revenue standpoint the School realized \$1.6 million in excess of their budget. That happened in several different areas. One is the State aid. There was an additional \$200,000 of excess State aid. Interest income. At the time the School's budget was formulated, the School did not receive interest income so there was no interest income in the budget. The School did realize some \$600,000 of interest income. That is a combination of interest income that was earned while School money was on deposit here in the City's treasury, as well as interest income that the School itself earned on its own bank accounts. The City of Manchester, subsequent to June 30, 2000, gave the School a supplemental appropriation of \$850,000 to mitigate in part the \$1.7 million deficit in the employee benefits account. Since that was not part of the original budget, that shows up here as excess revenues for FY2000. The total of those is around \$1.6 million. On the appropriation side, the appropriation's deficit is \$3.6 million through several categories and in the management letter we provide additional information about what particular accounts and how those appropriation deficits were caused. The largest single item as we all know is the employee benefit account, which is \$1.7 million in deficit partially, funded by the \$850,000 above. So that is the short version of the financial statements. I guess at this time before going into the management

recommendation letter I would ask if there are any questions related to the financial statements themselves.

Alderman Vaillancourt stated I have a question regarding what you are going to go into. Is there any difference at all between the data that was just handed out and this draft that many of us may have marked up? It looks like they are absolutely identical.

Mr. Sullivan replied when I go on to the management letter, I will point out to you the changes that were made.

Alderman Gatsas asked in your audit did you find any reserves for medical.

Mr. Sullivan answered there were no reserves for medical insurance. There was a deficit in the case of medical insurance, which is a combination of two things that happened. There were some catastrophic claims that happened and the School did not have individual stop/loss insurance and so the catastrophic claims were not covered. The aggregate stop/loss also did not kick into effect because at that point in time the City and School were together and where the City was having a positive aggregate health insurance, the School's negative was offset by the City's positive so the School also did not benefit from the aggregate stop/loss insurance. So, in fact their health insurance was at a deficit for the year. There is no reserve.

Alderman Lopez stated I would just like a clarification on the presentation of the audit that was just presented before this one. It stated that it was their opinion that the lawsuit would not have a material effect on the operation. Now do you agree with that?

Mr. Sullivan replied the opinion is different because in the City's audit report, the City and the School are combined together and they are recognized as one entity so as one entity the effect of the lawsuit doesn't affect the City of Manchester of which the School is part of. When you take the School out and look at it separately as an entity and look at the School's financial statements separately, the result of the lawsuit would have an impact on the School's financial statements when you pull them out and look at them separately and that is the difference.

Alderman Wihby stated on Page 7, number 4, it says, "The School Board should adopt statutes for overexpending expenses"...

Mr. Sullivan interjected you are onto the management recommendation letter.

Mayor Baines asked does anybody have any questions on the financial statements before we proceed to the management letter.

Mr. Sullivan stated the management letter that was just passed out in terms of changes of the draft that you have, if you look on Page 11 of the new bound management letter having to do with financial reports, we made a couple of changes in this particular finding. One you will notice is a May 2000 appropriation number where it was before listed as a \$201,000 surplus is now a \$748,000 deficit with an asterisk that the particular report in mind had at the bottom of the page applied \$950,000 worth of interest earnings for a projected surplus of \$201,000. That is a clarification. The other parts of this finding that were removed revolved around the School's financial staff preparing projections and information that had larger deficit, which were then at the direction of the Superintendent revised to indicate surplus. What was pointed out to me is that the process that the School has always gone through is that the financial statements would be put together in FY00 as in FY99 and FY98 and when that was done deficits were projected and the School then took actions regarding how they were going to deal with and mitigate those deficits. In FY98 as we know, the deficits were not mitigated and the School ended the year with a deficit somewhere in excess of \$1 million and in FY99 the School was able to take actions and mitigate the deficit problem so that at the end of the year they, in fact, hit a surplus. In FY00 because of all of the uncertainty revolving around the numbers, both in terms of the accuracy of the reports as well as several issues that the School didn't know how to resolve, the School took a position on certain offsets and you will see in my paragraph that reports did not reflect the appropriation deficit for employee benefits projected at \$1.7 million. Also they did not reflect the full extent of other deficits. The reason they didn't do that is they offset anticipated City appropriations, other revenue sources and proposed adjustments. I will tell you that during that period of time and through the end of the year we and management of the School District came to opposing viewpoints on many of those offsets and projections, which ultimately has resulted in a separation of our firm from doing work at the School District but our opinion as to whether or not those issues would materialize really aren't a reflection on whether or not the School staff felt they were going to materialize so we did revise the wording just to clarify that and recognize the fact that when these projections were put together there was uncertainty both in terms of the accuracy of the financial reports coming off the computer system, as well as resolution of many items including those items that are yet to be resolved as part of the court suit. That is the only change, I believe.

Mayor Baines asked could you clarify why that was changed. Do you still feel that inaccurate information was presented to the Board of School Committee?

Mr. Sullivan answered the reason it was changed was because I was making a statement that the School staff was preparing information that was revised by the Superintendent and the School staff that are there points out to me that they,

together with the Superintendent, were making projections. Now whether or not those projections were realized is a different issue, but they were not revising financial reports. They simply were projecting what was going to be realized in several areas. Let's just take for example the interest income. The \$950,000 worth of interest income. There was certainly disagreement between the City and School and several people had different opinions on whether or not the School was going to realize \$950,000 worth of interest income.

Mayor Baines asked do you still feel that inaccurate information was being given to the School Board at that time.

Mr. Sullivan answered our position...we did not agree with many of the offsets and projections that were being provided.

Alderman Wihby asked weren't you there at the time. Weren't you actually working for them?

Mr. Sullivan answered yes.

Alderman Wihby asked weren't you telling them that you didn't agree with this.

Mr. Sullivan answered yes.

Alderman Wihby asked didn't you know that the number was a negative and somehow when it got to the School Board it was a positive.

Mr. Sullivan answered we did not...there was a period of time post-1998 when the School was having us do monthly projections for them. We actually would take the information off the system and we would prepare projections and we would go to the Finance Committee and report those. After a period of time we stopped being asked to do that. In part, the interim Business Manager that came in, Kevin Mahoney, was a person who had financial expertise and a lot of budget experience and they were relying on Mr. Mahoney to do the budget projections and provide that information to the Board. I sometimes would see this information after the fact. I started...if we go back to about December/January, which is when to us deficits were starting to become clear, there was a time when I would...

Mayor Baines interjected what was the month again just to clarify.

Mr. Sullivan stated December/January of 1999. It was becoming evident to us that there were impending deficits that were going to be coming and there was a period of time that I was part of these meetings where they discussed the kinds of mitigation that the School could do to resolve these deficits and over a period of

time and I think that part of that had to do with the fact that I didn't agree with some of the types of offsets that they were looking to do, I was not included in those meetings.

Alderman Wihby asked when you did the reports, were there negatives then that were changed.

Mr. Sullivan answered when we did the reports we were projecting negatives in certain areas.

Alderman Wihby asked and when it went to the School Board was it not a deficit anymore.

Mr. Sullivan answered I can't specifically take a line item and say this is what we had projected and later this is what they had changed because the kinds of offsets, let me talk about the kinds of offsets that they would do. For example, as was done in 1998 and 1999 and they were projecting to do in 2000, they would take a look at all of their grant accounts and look to see if there were available positions that were eligible within the grant accounts to fund certain teachers that were being charged to the general fund so they would go through and identify teachers and if we felt that the teachers were eligible and the grant positions were open, would agree to the transfers. It is those kinds of things that the projections were being adjusted to address. Again, some of those kinds of things and transfers that they were proposing we were starting not to agree with.

Alderman Wihby asked didn't you actually quit a couple of times.

Mr. Sullivan answered yes.

Alderman Wihby stated in the draft that we got, it was pretty...I guess that is the one item that stuck in my mind that somebody would be changing numbers that were negatives and making them into a positive number and not inform the Board. I guess when you wrote the draft it was your opinion that the Board wasn't notified so I guess we would have to ask the School Board if they knew they were overspending and didn't care. Is that what we would be asking?

Mr. Sullivan answered I don't believe that the School Board ever felt that they were overspending and didn't care. What is difficult to deal with is many of the uncertainty issues. I mean as late as issuing the audit report there was still disagreement on accounting treatment of certain issues that had to do with City/School relationships and there was heated debated as to what that presentation was going to be.

Alderman Wihby asked does the auditor work for the Superintendent or the School Board.

Mr. Sullivan answered the auditor works for the School Board.

Alderman Wihby asked so did you ever mention to School Board members that this was not right and something should be fixed.

Mr. Sullivan answered yes, absolutely.

Alderman Wihby asked did anybody agree with you or what happened then.

Mr. Sullivan answered again the confusion over many of these issues, including City/School issues, Board members took different positions on accounting treatment of some of these issues and let's just take as an example the \$1.7 million employee benefits deficit. There were by far a majority of the School Board members that believed that the City was going to fund at least \$1.4 million of that but yet the issue of recognizing that revenue and adjusting the reports to reflect that revenue prior to the Board of Mayor and Aldermen actually appropriating the money is not correct accounting wise, but yet Board members right up until the night of the appropriation believed that that money was going to be available to them. In the School Board's perspective, given the magnitude of the City/School issues and the amount of dollars involved they really didn't know what the deficit number was going to be.

Mayor Baines stated just a point of clarification before we go to the other Aldermen. If Mr. Clougherty will recall, he and I met in February of 2000, shortly after I became Mayor and we came to the conclusion that there was going to be a deficit in the School. We came to the Board of Aldermen in March, I believe, and reported that we anticipated a significant deficit up to at that time we had information that it was going to be about \$1.4 million in relation to the benefits. At the time we became aware of it, we immediately came to this Board and reported it and asked the School District at the same time to implement a hiring freeze and anticipate a spending freeze in terms of the deficit. We did not have an understanding that it was going to be \$3.8 million over appropriation at that point.

Alderman Shea stated you have been talking about auditing, how about the HTE system. There was quite a bit of concern on the School Board's part that the reports weren't being generated. Did that impact anything?

Mr. Sullivan replied not FY00. For all of FY00 the School was on its own new computer system.

Alderman Shea responded so it was prior to that that the HTE system...

Mr. Sullivan interjected HTE was prior to that, but just let me remind you that the declaratory judgement happened in late May or early June of 1999 and on July 1, 1999 the School had to be live and ready to pay their bills on their new computer system and they did that for the vendor accounts but not for the payroll accounts. Payroll actually was converted as of January 1, 2000 so there is a transition period where the new system was being implemented and like any new implementation of that magnitude, took a while to get up and running and reliable and I will say there is a section in the management letter that I think we and the School were very disappointed in several aspects of that implementation and getting things up to where they should have been. That is why I say it was really February of 2000 which was the first month where a financial report could be produced that there was any degree of confidence in the number.

Alderman Vaillancourt stated so I understand you now to say that the only change between the draft and the version we were handed out tonight is that paragraph on Page 11 of the version we were handed out tonight and Page 10 of the draft. Is that the only change?

Mr. Sullivan replied I believe so other than that this report incorporates all of the School District's responses to our findings, which were not in the original.

Alderman Vaillancourt asked so would it be fair to say that the sentence, "those reports would then be revised at the direction of the Superintendent to reflect projections that had an overall surplus appropriation balance"...so you no longer stand by that sentence then.

Mr. Sullivan answered we stand by what is in our new report.

Alderman Vaillancourt asked so we should consider this inoperative at this time.

Mr. Sullivan answered from our perspective, yes.

Alderman Gatsas stated I have a couple of simple questions. Normally, in a financial audited statement payroll figures fall on a given date based on a contract. If a contract period ends on a certain day, are those wages to be counted in the preceding year or the forward year based on the contract?

Mr. Sullivan replied based on the contract, I guess I am not understanding your question. The contract sets forth the payment schedule.

Alderman Gatsas stated okay let's assume that a contract ends December 31. Wages incurred from January 1 to December 31 should be accounted for that year?

Mr. Sullivan answered not necessarily. If the contract...as the School District teacher's contract has been written specifically for the purpose of extending, even though the time of service may be July 1 through June 30, the contracts have been written so that they are paid out over July and August. What happens is the period that they are recognized as an expenditure matches when they are appropriated and the funding is available for them. This is a step that the City of Manchester and School District cooperatively did in the year of the fiscal conversion.

Alderman Gatsas stated so what you are saying is that whatever funds are appropriated for that given contract year means that that is when those funds should be paid or they can be carried forward to the following year.

Mr. Sullivan replied again what we required in the year that this change took place was that the payment schedule and the contract coincide with when the expenses were going to be recognized so that even though technically service ended June 30, the payment schedule went through all of July and August and so those July and August teacher payments have for many years been deferred until July and August, which is where they are budgeted and also based on when they are paid by contract. That has been consistent for many years. You may be talking about other changes in payroll procedures, but the one that we are talking about now is...there is also an issue of whether or not at June 30 the employment terminates because for all of those employees that stay here, technically the employment doesn't terminate but is ongoing because they continue to receive health benefits and all of their benefits, even though their next paid contract doesn't start until September. Actually, the time they would start getting paid on their new contract would be September.

Mayor Baines stated also for clarification on that if my recollection is right that was an agreement that was struck with the City and the School about six or seven years ago and the teachers agreed to go to 26 payments and it was actually during the financial crisis to help the City out of the situation if I recall.

Mr. Sullivan replied I believe it was the conversion year. It goes back to 1993/1994 when it was an 18-month year. The contract was changed to word that there would be 26 payments commencing the second Thursday after Labor Day.

Alderman Gatsas asked so for budgeting purposes you would assume that those 26 payments would be included in the audit year that the funds were distributed.

Mr. Sullivan answered the budget reflects not all 26 of those payments within a fiscal year so that typically four of those payments are going to fall into the next budget year. It is the way that it was designed and at the time we were the City's auditors and together with the Finance Department actually contacted the members of the Governmental Accounting Standards Board and got direction on how to put the contracts together and how to structure this so that you could achieve the goals the City was looking for.

Alderman Gatsas asked so would it be correct in my assumption that as of June 30 I should be looking at somewhere between one to three payroll periods for July and August.

Mr. Sullivan answered there are four payroll periods in July and August. Two in July and two in August.

Alderman Gatsas asked so those four payroll periods, are they in the audited statement of FY00 or are they in the audited statement of FY01.

Mr. Sullivan answered FY01.

Alderman Gatsas asked so if I look on Page 15 of your accrued liabilities, the accrued payroll shows me only \$1.270 million in accrued payroll.

Mr. Sullivan answered right. That accrued payroll represents only the last payroll of FY00 that had been incurred in that the hours related to that payroll were in June but the payroll was paid like July 3. That is one particular pay run for teachers, which was a June payroll paid in July. It is not the July...the two July and the two August. We do not accrue for the July and August payrolls.

Alderman Gatsas asked so that \$1.2 million is really wages of the FY00 audited budget.

Mr. Sullivan answered yes and charged against the FY00 budget.

Alderman Gatsas asked it is.

Mr. Sullivan answered yes.

Alderman Gatsas asked is that consistent with the practices you have had in the past.

Mr. Sullivan answered yes.

Alderman Gatsas asked the \$400,000 that was a carry forward from the 1999, the same scenario was carried into the FY00 audit and it was called acceptable accounting practices.

Mr. Sullivan stated what you are talking about in that \$400,000 is at the end of FY99 the last payroll ran three days in June and two days in July so what the School did was take that payroll and divide three days of it and charge it to FY99 and two days of it and charge it to FY00. Now the FY00 includes that \$400,000. It happened in FY00 that there was no split and that the actual end of the payroll was on June 30 so that as of FY00 there was no allocated payroll between FY00 and FY01 because the split happened to be right at the end of the week.

Alderman Gatsas stated back to the audited financial statement and talking about health insurance, your audit showed no reserves.

Mr. Sullivan answered that is correct.

Alderman Gatsas stated in a fiscally conservative, self-insured plan, what should the reserves be.

Mr. Sullivan replied in a fiscally responsible plan the reserves ought to be sufficient to at least pay what is called the run out, which is those bills that would be paid if you were to stop the plan. As of June 30, 2000 if the School District plan were to cease to exist there would still be employees receiving benefits for months and sometimes even years to come under illnesses that occurred at the time they were on the plan and that is called the run out. The reserve ought to at least be sufficient to cover the run out.

Alderman Gatsas asked normally what is that percentage in other self-insured plans that you have looked at.

Mr. Sullivan answered I believe if you look at the footnote, the run out on Page 18 is \$676,736.

Alderman Gatsas asked and the total...

Mr. Sullivan interjected the total claims paid are \$7 million. The claims liability, which is an estimation because it is as of June 30 was \$676,736.

Alderman Gatsas stated that is not even barely 10% is it.

Mr. Sullivan replied that is under 10%.

Alderman Gatsas stated if you had to run through ARISA guidelines you probably would be looking at 23% as a reserve.

Mr. Sullivan replied but remember they carry a stop-loss premium that covers anything over 5%. So, if your claims end up more than 5% in excess of what you are paying through premium, then it is covered by a stop-loss insurance so you are not fully 100% self-funded because you do buy catastrophic stop-loss insurance that covers. So 5% in aggregate is, I believe, what the City and the School this year individually in FY00 together was the aggregate stop-loss. I would think that \$600,000, which is approaching 10% would probably be pretty reasonable.

Alderman Gatsas stated but that doesn't even cover one month.

Mr. Sullivan answered that is correct.

Alderman Gatsas stated and you are always at least 90 days behind on claims.

Mr. Sullivan replied right.

Alderman Gatsas stated so if you are 90 days behind on claims, the run off has to be somewhere in the vicinity of \$1.8 million.

Mr. Sullivan responded it is not 90 days. If you look at, for example, one of the ways we look to see if the claims liability is adequate...what we would do is look at July claims and the July claims would probably run about 90% prior claims and about 10% July claims. Then when you get into the next month the percentage actually went down pretty substantially so the claims liability for August was probably about 60% or 70% of current July and August. So yes there is a run out but it is all related to the prior fiscal year. It is not 90 days.

Alderman Gatsas stated but those are the two worst months you can look at in any insurance plan because the utilization during those two months is not indicative to what the rest of the months are because most people don't think about going to the doctor during the summer. I think that any self-insured plan that you will talk to anybody about, they will tell you that the runoffs are at least 90 days.

Mr. Sullivan replied that has not been the experience here.

Alderman Hirschmann stated I want to start with the beginning of your management letter. It talked about an overview of how things were declared weaknesses and reportable conditions. What surprised me is when you get to Page 4 you discuss appropriation deficits but you don't consider that a reportable condition – a deficit on an appropriation.

Mr. Sullivan replied reportable conditions have to do with the structure of internal controls. I think an appropriation deficit is more of a compliance finding. There are rules regarding...we are treating the appropriation deficit as though it is a compliance finding as opposed to a reportable condition.

Alderman Hirschmann stated on Page 5 it is not a material weakness that in the first paragraph it states, "as a result of the deficit that occurred in FY98 the School District adopted certain controls that were designed to prevent future budget deficits, particularly those caused by mandatory funding of special education costs. These controls included Board of School Committee transfer authorization to cover any costs in excess of the appropriated amounts prior to commitment to expend such funds." So they addressed something in 1998 but in the Year 2000 in the next paragraph you state "in administering the FY00 budget the School District did not adhere to the previously adopted procedures." So, the decision that the management made resulted in another deficit.

Mr. Sullivan replied that is correct.

Alderman Hirschmann asked so that is correct and that is not a material matter.

Mr. Sullivan answered I am not saying it is not material. What we are saying is I look at it as a compliance finding, which to me is a higher level of importance than is a reportable condition.

Alderman Hirschmann replied so it is a higher level.

Mr. Sullivan responded yes. We structure the management letter to address the biggest problems first.

Alderman Hirschmann stated I appreciate you clarifying that because the way you state it it looks like it is in passing.

Mr. Sullivan replied no.

Mayor Baines stated so just to emphasize, the compliance in your view is a more serious...

Mr. Sullivan interjected well not only in our view but in the accounting standards a compliance finding is more serious.

Alderman Hirschmann stated the other point I want to make is on Page 5. It is the third paragraph down. In the middle of that paragraph, I take exception to this. It

says, “the appropriated budget was never voted or adopted by the School Committee.” I underlined that. I don’t know if you referred...well you had to refer to the Charter because I referred to the Charter and Section 6.06 of the Charter states, “the School Committee shall administer, expend and account for the funds approved by the Board of Mayor and Aldermen.” It goes on to say, “and shall have exclusive authority to transfer funds among line items to the School budget.” What it is stating is we adopted the School budget and whether or not they ever accepted it...

Mr. Sullivan interjected I think we are probably on the same page on that because I find that as a material problem, the fact that the School didn’t go back and revote the budget that was appropriated by the Board of Mayor and Aldermen because they voted on the budget that came to the Board of Mayor and Aldermen.

Alderman Hirschmann stated again it looks in passing like you are just stating this casually. You are not saying here that it is a material problem or a serious problem.

Mr. Sullivan replied I consider all of this finding to be a material and serious problem.

Mayor Baines stated we had some discussions about this on the School side and if I recall his point was that once the final appropriation came to the School...again for the people listening at home we are talking almost two full years ago now, in 1999, when they never took the budget or voted on it and established line items. If I recall one statement that you made, there was acknowledged deficit in salaries right off the bat and as a result of that, the overspending was basically in place because that action never occurred and there were no controls in place established by the School Board in July of 1999 that would have established the line items. Am I correct on that?

Mr. Sullivan replied yes. The Business Office put the budget into their computer system and in our opinion the Business Office doesn’t have the authority to do that. The line items are voted by the Board of School Committee that would constitute the School’s real budget. So their not taking action of that caused confusion in terms of...you know the Board of Mayor and Aldermen cut the School’s budget by some \$800,000 that year. So, between leaving the Board of Mayor and Aldermen and going back to the School, there was never a reprogramming of how that \$800,000 cut was programmed into the School’s budget.

Alderman Hirschmann stated just for a clarification, what we did that year is we cut their request. We didn’t cut their budget. They never refined their budget and

honed it to \$100 million rather than \$102 million. There are a lot of people watching at home that want to know what is going on. They never fixed their numbers. We adopted \$100.6 million and they wanted \$102 million. They never accepted what we gave them in fact. I appreciate you saying that on camera.

Mr. Sullivan responded and what I am calling for is that when the Board of Mayor and Aldermen votes the final budget then the School go back and revote and allocate what they are appropriated.

Mayor Baines stated which did occur in the next fiscal year.

Mr. Sullivan replied that is my understanding.

Alderman Hirschmann stated when we get to FY02, I hope we go by what it says on Page 186 here that the number that we approve we send back to them so that they can put it in the computer the right way.

Alderman Levasseur stated on Page 6 where it says, "the tutor account increased in cost by 53% and the assistant's account increased by 13% for a total of \$856,000" did that number include benefits and insurance and stuff like that or was that just the salary number.

Mr. Sullivan replied that was just the salary number.

Alderman Levasseur asked so that doesn't include the additional cost of the benefits that would be paid for these individuals.

Mr. Sullivan answered for the most part the tutors and the educational assistants do not heavily participate in the health insurance plan because they are for the most part part-time. Tutors are usually part-time. They are not full-time.

Alderman Levasseur asked so if you were to adjust that number could you make some sort of an educated guess upward what that would be or could you not do that.

Mr. Sullivan answered not really because as I say I know that the tutors and the educational assistants are not heavy participants in the health insurance part of the plan so whether it would be 10% would probably be high.

Alderman Levasseur asked would there be any other costs associated with that particular number.

Mayor Baines stated just to clarify educational assistants I believe are covered by insurance and tutors are not because they are hourly employees. The educational assistants are covered by the insurance plan.

Alderman Levasseur asked so the \$269,000 number would be adjusted accordingly for the insurance.

Mr. Sullivan answered yes to reflect health insurance.

Alderman Levasseur stated on the bottom paragraph just above the word “recommendations” you have the word “knowingly”. That is a very high standard to prove anywhere in any court. Where do you justify using that word? Did somebody express to you that they knowingly made that over expenditure?

Mr. Sullivan replied it has been said numerous times that the Superintendent took the position that he had not only available to him the School’s appropriation of \$100.5 million, but also had available to him interest income and other revenue sources. The decision on the textbooks...when the decision to expend the money on the textbooks was made they knew that would over expend the textbook budget and indicated that interest income and other revenue sources would be used to cover that over expenditure.

Alderman Levasseur asked the word “large” is again a word that has nothing with it. What do you mean by large? Do you have a number for that?

Mr. Sullivan answered not off the top of my head. Large for me would be certainly more than 10% or 15%. It would be more in the 20%, 30% or higher range for me to say large but I don’t remember off the top of my head that number.

Mayor Baines stated I would just like to clarify a point. If I recall, in earlier remarks that you have given to the Board and in conversations you brought that matter to the attention of the Superintendent because you felt that the textbook account was being overexpended and you advised the Superintendent to call in the principals and reign in the spending and I believe that was in December of 1999. So you went to the Superintendent, advised him that there was a major problem in that account and asked him to call the principals in to address it am I correct?

Mr. Sullivan replied yes, in fact there were several accounts that we had advised the Superintendent on.

Mayor Baines asked what were the others.

Mr. Sullivan answered there were the lease accounts, the tuition accounts, and supplies accounts that we had identified back in December were going to be in deficits. That, all together, is what precipitated the \$1 million transfer that the Board of School Committee later made to try to cover several different accounts that were identified as ones that would have expenditure problems.

Mayor Baines stated I also want to indicate that in December of 1999 you expressed concerns to the Superintendent about the fiscal management of the district in communications with the Board relative to these matters.

Mr. Sullivan replied what had happened is there still is confusion over the so-called \$1 million SCIP money and who funded it and where it came from but what had happened is...we just talked about the fact that the Board of School Committee...

Mayor Baines interjected could you just clarify that because there are people listening at home and will not understand. The \$1 million was the money that the previous Mayor put in the budget for "painting" but it was also for small School maintenance projects right?

Mr. Sullivan stated in April of 1999 the Board of Mayor appropriated a capital improvement program. Part of that capital improvement program included \$1 million of improvements to school buildings like painting and other things. I indicated to you that the Board of School Committee did not vote the revised budget and that it was the Business Office that put that budget into the computer system. Well, when the Business Office put that budget into the computer system, there was a \$1 million line item that had been put into the repairs and maintenance budget because at the time the Business Office thought that the \$1 million painting program was to be funded out of the School's budget because when the School's budget collapsed they thought it was part of their budget. In going through, we verified that in fact \$1 million was part of the capital improvement plan and it was not necessary to set aside that money for improvements so the recommendation had gone to the Board of School Committee to take \$1 million and transfer it to textbooks and leases and other accounts to cover what was evident were going to be impending deficits. However, when payroll came on Board in January of 2000, when this data all finally got put into the School's books and projections were put together, what was realized was that when that \$1 million was taken out and put into the repairs and maintenance line item it was taken out of salary so that the \$1 million wasn't available to be used for textbooks. It wasn't able to be used for overexpenditures in other categories but it had to go back to the salaries line item or else salaries were going to be overexpended by \$1 million. It was at that point when we knew that that \$1 million wasn't going to be available that we raised concern as to not only the \$1.7 million employee benefit deficit that was being

projected, but also \$1 million in other accounts that looked like we thought were going to be covered by this \$1 million for painting but now all of the sudden that money wasn't available anymore. It was at that point that we realized that there was going to be not only a \$1.7 million deficit but a possibility of another \$1 million too and that is a process that we have talked about of the School going through various scenarios of how they are going to cover that \$1 million.

Mayor Baines stated so at that point in time you realized that the deficit could be as large as \$3 million.

Mr. Sullivan answered \$1.7 million plus another \$1 million.

Alderman Levasseur asked when we talk about overexpending and it was justified by interest income and other revenue sources, the normal procedure if you are going...is the School Board or any Board allowed to just take from a line item and reappropriate it to a different line item without...can they do that.

Mr. Sullivan answered yes. The School as an entity is voted a bottom line appropriation by the Board of Mayor and Aldermen so that they then have the ability within line items to transfer as they wish.

Alderman Levasseur stated the next question is are they allowed to transfer the line items on their own authority or do they have to go back to the Board for that.

Mr. Sullivan replied what we are setting up in our recommendations and had established as a result of 1998 is that the Board of School Committee should vote all of the line items and then if there are transfers between line items, a request would actually be submitted to the Board and a transfer made.

Alderman Levasseur asked so that procedure had been in place at that time it just wasn't followed.

Mr. Sullivan answered after the 1998 deficit that was the recommendation and there was a period of time when the School Board was making transfers and with the confusion of FY00 and the collapse of the budget and all of that.

Alderman Levasseur asked when you say "justified by interest income and other revenue sources" was it justified by interest income that they were projecting to receive or did they already have that interest income and revenue source in their...was it something that they had in their hands or was it a projection.

Mr. Sullivan answered that certainly is one of the issues of dispute because they were using a projected \$950,000.

Alderman Levasseur asked and the projection of the \$950,000 was to come at how much further of a future time.

Mr. Sullivan answered the problem is that about \$300,000 or \$400,000 of that \$950,000 was actually coming from the City and the City said no. It was one of those disputed items that we all knew was disputed but the School took the position that they were entitled to the money.

Alderman Levasseur asked as far as normal procedure, that is not the way to do things right. You are supposed to go ask for the \$300,000 before you start making line adjustments or justifying on these basis...would that be the normal way to do it?

Mr. Sullivan answered I think first of all the issue is in my mind, which doesn't matter because I am not here anymore but the issue is does the School have the right to expend the interest income without an appropriation from the Board of Mayor and Aldermen. I still think that is an open issue to be clarified by the courts. If, in fact, that is clarified that the School is allowed to expend the interest income then I think under any reasonable measure it would be only the interest income that had been earned, not the interest income that was projected.

Mayor Baines asked did you ever advise the Superintendent that spending in excess of appropriation was prohibited.

Mr. Sullivan answered we had lengthy discussion over what the declaratory judgement meant and if I could for not only the members of the Board of Mayor and Aldermen and School Committee members but those listening, on Page 4 of my management recommendation letter it says, "the declaratory judgement in our opinion confused rather than clarified the issue" and this is the interest income issue. Decision #4 on Page 13 states, "the District is entitled to expend only that amount approved by the Board of Mayor and Aldermen and the interest on those funds." It goes on on Decision #10 on Page 16 to state, "the District is only entitled to expend what the City appropriates." The same decision #10 goes on to say, "the District is entitled to expend the surpluses in any of its budgetary accounts." The problem the School faced was interpreting just simply those parts of the declaratory judgement and different advisors, legal and accounting and others, had different opinions as to what the declaratory judgement officially set forth. That is the problem. Our position has always been and continues to be that the School is only authorized to spend what the Board of Mayor and Aldermen appropriate.

Mayor Baines asked and you gave indications in other meetings that you had advised the Superintendent that he could only expend what was appropriated by the Board.

Mr. Sullivan answered by the Board of Mayor and Aldermen, yes, that has always been our position notwithstanding what the declaratory judgement says.

Alderman Levasseur stated reading this opinion that you have written in here, if you take the first two lines, those I think are pretty clear on their face. In the last line, "the District is entitled to expend the surpluses in any of its budgetary accounts" goes back to what we were just stating. If they have extra money in a certain line, they can move that amount around. Is that what you mean by budgetary accounts?

Mr. Sullivan replied yes, appropriation accounts.

Alderman Levasseur asked so if the bottom line number is \$100.5 million and they need to move money around within that \$100.5 million they are okay. That is pretty much spelled out. So the dispute is...I think we understand what this language means. It seems there is a difference on the School Board's position on the first two lines.

Mayor Baines stated the Charter is very clear on that. The Charter states very clearly that if you have, and correct me if I am off track here Mr. Clark, but basically if you have income that is in excess of what you anticipated, the School Board needs to come back to the Aldermen with a request for appropriation and then you go through the whole appropriation process again. Am I correct on that?

Solicitor Clark replied that is correct. The Charter provides that unanticipated revenues or excess revenues, once certified, can be the subject of a supplemental appropriation by the Board.

Mayor Baines stated so the Board has no authority or the Superintendent has no authority to expend more than what is appropriated by the Board and if there were excess revenues coming in there is a process outlined in the Charter to do that.

Alderman Levasseur stated I could understand that the...and I don't want to make the argument for them but the argument is very clear to me from the School Board side that the District is entitled to expend only that amount approved by the Board of Mayor and Aldermen and then where it confuses the whole line "and the interest on those funds" is I think very hard language and very easy for them on the School Board side to make their argument and I can see where it would need a clarification. I can see where they would have a decent argument on the interest.

Mayor Baines replied on the interest but not on the revenues.

Alderman Wihby stated there are clearly minutes that we have from meetings that we had that clearly state that if they had additional revenues they could come back to this Board and we could allocate them. It is very clear that we said they had to come back to the Board to overspend or to use that money. No one argued at the time we are not going to come back and do anything. I want to go back to what you just asked Tom. It is clear in the Charter that the Superintendent has no authority to overexpend. Is that in court now too or is no one arguing that?

Solicitor Clark replied that is all tied up in the court case.

Alderman Shea stated just to clarify in my mind, the School Department had a budget of so much, say \$100 million and in April of the following year we as a Board appropriated \$1 million through the CIP fund for them to do things like painting and things like that. Now would that \$1 million add a deficit because they didn't anticipate that when they made out their budget?

Mr. Sullivan replied that \$1 million was part of the capital improvement program and it was budgeted and expended out of the capital improvement program.

Alderman Shea asked so that was appropriated at the same time the budget was.

Mr. Sullivan answered it was April of 1999. It was prior to the appropriation.

Alderman Shea stated so the understanding was that the \$1 million would have been a responsibility of the School Department. I am not sure that any other department...because it is a School District is that it rather than a department that that was called a chargeback at the time?

Mr. Sullivan replied the chargeback issue happened because when the original appropriation occurred in April of 1999, the declaratory judgement hadn't been issued yet. At the time the article was voted by the Board of Mayor and Aldermen, the capital improvement program for the School, the \$1 million, was connected with a revenue of \$1 million, which was supposed to come from the impending State property tax distribution, the additional \$14 million or whatever that the City of Manchester was going to get as a result of the Claremont II decision. \$1 million of that was to be allocated to the capital improvement program. What happened after the declaratory judgement is that the School, all of the sudden, collapsed into a separate entity and several things were brought together.

Alderman Shea asked in other words if the School remained a department rather than becoming a district, would that \$1 million have been a chargeback or would that not have counted towards a chargeback for the School.

Mr. Sullivan answered it never had been a chargeback in the past so I think that putting it in as a chargeback sort of happened at the tail end of putting the School's budget together in June of 1999.

Mayor Baines stated Mr. Clougherty would like to clarify that. I don't think that is exactly true.

Mr. Clougherty stated the \$1 million has always been a chargeback as you know because we have had this discussion. From the City's perspective when we did the calculation that was always included in what had been provided by Public Building Services.

Alderman Levasseur stated I want to just go back to one more thing. If we give them the argument that they are entitled to expend the interest on the funds, do you have a number for that? Was that \$550,000?

Mr. Sullivan answered in the financial statements you will see that on Page 5. It was \$603,600. That was the actual amount realized not including additional amounts that the City is requesting through its declaratory judgement.

Alderman Levasseur asked if you took that number out of the equation, Mr. Sullivan, what then would you be left with.

Mr. Sullivan asked if you took that \$600,000 out of the \$3.6 million.

Alderman Levasseur answered yes. In other words you would then just have a \$3 million deficit.

Mr. Sullivan replied yes.

Alderman Lopez stated under your management letter you have already indicated that Page 11 was the only thing that changed. In doing the management letter and looking at it, the Chairman of the Finance Committee of the School Department had answered some recommendations and things that were wrong or however you want to put it. Did you take that letter into consideration in making your final documentation to us?

Mr. Sullivan replied I did not take the Chairman of the Finance Committee's response into consideration in changing our management letter.

Alderman Lopez asked have you talked with the Chairman of the Finance Committee on any audit position.

Mr. Sullivan asked are you talking about since the issuance of our draft of the management letter.

Alderman Lopez answered yes.

Mr. Sullivan stated no, he was not at the meeting that I had at the School to discuss the management letter and I have not talked to him outside of that.

Alderman Lopez stated one of the items on Page 7, penalty, is there anyplace in the State of NH that has a penalty that you are referring to here.

Mr. Sullivan asked do you mean a penalty for overexpending the budget.

Alderman Lopez answered yes.

Mayor Baines stated it would be in the NH Municipal Finance Act that we haven't adopted.

Mr. Clougherty stated right it is clear in the municipal budget law.

Alderman Lopez asked, Solicitor Clark, could an ordinance be drafted in reference to overspending.

Solicitor Clark asked for setting a penalty.

Alderman Lopez answered yes. An ordinance or a Charter amendment?

Solicitor Clark stated there could be a Charter amendment but I don't know if you could do it by ordinance.

Alderman Gatsas stated on Page 5 and I am looking at the revenues, can you...probably off the top of your head you can't remember but I will make the attempt. Charge for services, I assume, is tuition.

Mr. Sullivan answered primarily. There are three types of tuition. There is regular tuition, special education tuition and vocational tuition.

Alderman Gatsas asked property taxes I assume is taxes. State aid is a variety of things.

Mr. Sullivan answered yes it is a combination of things.

Alderman Gatsas asked adequate education grant.

Mr. Sullivan answered yes.

Alderman Gatsas asked school building aid.

Mr. Sullivan answered yes.

Alderman Gatsas asked area vocational school.

Mr. Sullivan answered yes.

Alderman Gatsas asked catastrophic aid.

Mr. Sullivan answered yes.

Alderman Gatsas asked driver education.

Mr. Sullivan answered no I don't think so.

Alderman Gatsas asked where would I find that.

Mr. Sullivan answered probably in charges for services if it is not in the special revenue fund. Sometimes the driver's education money gets set aside in a special revenue fund.

Alderman Gatsas asked so the \$63,000 that I am looking at here that was delivered by the State...

Mr. Sullivan interjected I don't think it is in there. Again, that is off the top of my head.

Alderman Gatsas asked it is not in where.

Mr. Sullivan answered I don't believe it is in the state aid calculation.

Alderman Gatsas asked is it in the other calculation.

Mr. Sullivan asked in the charges for services.

Alderman Gatsas answered well either that or the other where it says \$189,000.

Mr. Sullivan stated it is not in the other, no. I think it is in the special revenue account. It is not in the general fund at all.

Alderman Gatsas asked from what I understand, that is a 1/3 portion.

Mr. Sullivan asked the driver's education.

Alderman Gatsas answered the driver's education from the State.

Mr. Sullivan replied right.

Alderman Gatsas stated so if I take 1/3 and it is \$63,000 then the total should be somewhere around \$180,000 or an additional \$120,000.

Mr. Sullivan asked where are you getting the \$63,000.

Alderman Gatsas answered what I am doing is I am actually using the budget that they produced for us last year on the revenue side and they showed revenues of \$63,000 for driver's education so I am assuming that that has to be somewhat relatively close to that number.

Mr. Sullivan replied that is probably true but I would also tell you that the School took certain things out of the general fund during the conversion year and School Food & Nutrition was one of them that was taken out and I believe driver's education may be another one that was taken out.

Alderman Gatsas asked when you say taken out, taken out after you did your audit.

Mr. Sullivan answered no taken out of the general fund and put into a special revenue fund.

Alderman Gatsas asked where would I see that in the revenue column.

Mr. Sullivan answered on Page 4. The column "Special Revenue Funds" for a total of \$8,293,777 federal and state aid. If it is a special revenue fund, it would be in that number.

Alderman Gatsas asked would that also be the portion other than the State's.

Mr. Sullivan answered no. The portion other than the State's would be in the charges for services number.

Alderman Gatsas stated back to your \$1 million SCIP account. I think I was channel surfing the night that the Board was wrangling that same situation and I believe if we can simplify the problem, I believe that that \$1 million was just distributed in four different line items. Instead of just distributing \$1 million, they actually distributed \$2 million and that is why there was a \$1 million overspend because it appeared in four different accounts.

Mr. Sullivan answered that is not true. I don't know where you are getting that number, but that doesn't make any sense to what I have seen.

Alderman Gatsas asked so if I showed you a tape with Mr. Mahoney showing that...

Mr. Sullivan interjected I would be happy to look at your tape. I just think that based on what I know of what got distributed in the budget that is not true. What you are talking about is there was \$1 million reprogrammed to four different accounts.

Alderman Gatsas replied that is what I am saying.

Mr. Sullivan stated and it is the fact that that \$1 million in the end was never available to be reprogrammed that caused the deficit.

Alderman Gatsas replied that is what I am saying so it was really programmed as \$2 million when there was only \$1 million there.

Mr. Sullivan stated the \$1 million was over in the capital improvement program. It was never in the general fund budget. That is the problem. It was never part of the general fund budget.

Alderman Gatsas asked so it was spent in the capital budget.

Mr. Sullivan answered I believe about \$750,000 of it actually got spent.

Alderman Gatsas stated so it was spent there but it was also moved to three other accounts when there was never \$1 million there to be moved.

Mr. Sullivan answered that is correct.

Alderman Gatsas stated so it was spent as if it were \$2 million and not \$1 million.

Mr. Sullivan answered no and the reason I say no is that the deficit that it was covering got spent irrespective of that transfer. That transfer was to cover deficits that had already incurred so it is not like that \$1 million was reprogrammed and spent. In analyzing the accounts and determining that there were overexpenditures in several different accounts and there needed to be a way to mitigate those overexpenditures, that \$1 million was identified as a source of revenue to cover those. We later found that that \$1 million was not available and could not cover those so then the deficits were not covered but it was not like we have this \$1 million and program to spend it.

Alderman Gatsas asked how many times was the \$1 million spent. How much money, if \$750,000 was spent in the capital budget, that leaves you \$250,000...

Mr. Sullivan interjected right, which was encumbered on the City's books I believe so from the School's perspective, \$1 million was spent.

Alderman Gatsas asked so that line item of \$1 million was moved and spent again was it not in three line items.

Mr. Sullivan answered no I am saying it wasn't spent again. There was an attempt to use that \$1 million to cover deficits and it was determined that the \$1 million was not available to cover those deficits but there was never a plan or a management action that was based on spending that \$1 million.

Alderman Vaillancourt stated I would like to try to get back to the ownness of responsibility and try to focus again on Page 5 of your management letter, which seems to be where things are hottest. To me it seems, and correct me if I am wrong, that the whole thing comes down to transfers. Were transfers ever authorized? Were there ever questions that transfers should be authorized? On that page in two places you say something in regard to this. Once you say "in no case did the Board of School Committee take action to authorize or vote such excess expenditures" and then down near the bottom of the page you say "at no time did interest income, other revenues or any other budget adjustments to cover known expenditures come before the Board of School Committee for action."

Mr. Sullivan replied that is correct.

Alderman Vaillancourt stated these are transfers that should have come before the Board of School Committee and if they would have seen that these monies were being expended and they had to transfer it from someplace else, then they might well have known that the problem was brewing.

Mr. Sullivan replied first of all I believe that the Board of Mayor and Aldermen have to vote the appropriation or the authorization to spend the interest income. My point here is that if you take the assumption that the School can spend that without the Board of Mayor and Aldermen, certainly at least it needs the School Committee approval to spend that.

Alderman Vaillancourt asked and that never happened.

Mr. Sullivan answered there was never an action taken by the School Committee to say we are estimating \$950,000 worth of interest income and we are looking to spend this on X, Y and Z and a vote. That type of action never happened.

Alderman Vaillancourt stated so we don't know if the Board of School Committee ever would have approved this because they were never asked to approve it. So the ownness cannot lie with the School Committee, but must lie with the Superintendent. Is that your bottom line?

Mr. Sullivan answered I am not going to speak to discussions that happened between the Board of School Committee and the Superintendent because I am not aware of them. I don't know what they knew. I know that they did not take a voted action. We never saw in the minutes of any of the School meetings a voted action. Whether or not there were discussions and consensus, I can't answer that question.

Alderman Vaillancourt stated if, in fact, monies are being spent improperly and monies are being spent that don't exist, that aren't there, that might somehow be there by the Administration, would it not be the Administration's responsibility to come to the School Committee and say this. I mean the School Committee can't vote transfers unless they are told there is a need to vote transfers. They can't divine something out of thin air can they?

Mr. Sullivan replied I believe that is what we are saying in our management letter that we are calling for those type of actions to be taken in all cases, even line item transfers.

Alderman Vaillancourt stated I have one other question from the previous page, Page 4, because there is a sentence that has bemused and befuddled me and words have meaning so I want to see if I can get a firmer grasp of meaning. Just above where you are talking about current year expenses, the final line where you say, "it is our hope that these issues can be resolved and that fiscal integrity can be established at the Manchester School Board." Now to me you say fiscal integrity can be established. You don't say can be reestablished. You don't say that more

fiscal integrity can be established. To me this is a blanket indictment saying there is and has not been any fiscal integrity. Is that my correct reading of those words?

Mr. Sullivan answered I think that to make that kind of assumption you are taking things out of context. I think you have to look at this from the standpoint of all of the transition and all of the other issues that are in my opening statements to the management letter. I think the fact that the transition and the uncertainty related to things that are still in dispute and in the courts and yet unresolved all play to that issue of fiscal integrity. Not knowing what you have for a budget and not knowing what, in the end, numbers are going to be certainly is not fiscal integrity but it is more than just establishing a policy of the School Committee voting transfers. I think that I would like to see again and I don't know how many times it has been said that the Board of Mayor and Aldermen and the Board of School Committee get together and resolve all of these transitional issues that from the day of the declaratory judgment never have been established and are back in court now. Until you establish the broad guidelines that they are going to operate under, I think it is going to be difficult for that to happen. There is still uncertainty as of today.

Mayor Baines stated just as a follow-up, didn't you indicate that one of the reasons you resigned was because you were concerned about the financial integrity.

Mr. Sullivan replied yes.

Alderman Gatsas asked, Mr. Sullivan, how many municipalities do you do or how many school districts do you do.

Mr. Sullivan answered about 100.

Alderman Gatsas asked how many school districts.

Mr. Sullivan answered probably 40.

Alderman Gatsas asked have you had management letters of this capacity before.

Mr. Sullivan answered yes.

Alderman Gatsas asked did you resign from those districts.

Mr. Sullivan answered I have not, no.

Mayor Baines asked could you repeat that please.

Alderman Gatsas stated my question was have you had management letters to this degree before.

Mr. Sullivan replied the answer is yes. I had a school district recently that had a \$6 million embezzlement and we had to get special legislation passed for them to make it financially through the end of their fiscal year. I didn't resign. I didn't resign because the recommendations and the things that we were recommending be done we were in agreement on. Management agreed with the direction that we were going in. In terms of resigning, the resignation relates to the fact that as auditors we are not agreeing with management in terms of the direction that they are going.

Mayor Baines asked have you ever resigned before.

Mr. Sullivan answered actually I think we resigned from the City of Manchester or I think we had probably already been fired by then.

Mayor Baines stated that was during the interview process as I recall.

Alderman Gatsas stated so you didn't resign from the City of Manchester you were just not rehired.

Mr. Sullivan replied that is correct. We put in a proposal, which we withdrew.

Alderman Gatsas stated so that was just a funny remark.

Mr. Sullivan replied yes, that was meant to be a joke.

Mayor Baines stated but it wasn't over any financial integrity issues.

Mr. Sullivan replied it is not normal for us to resign from a client. It does not happen often.

Alderman Gatsas asked how many times have you been terminated from a client.

Mr. Sullivan answered in 28 years, probably two or three times.

Alderman Levasseur asked did you have a management contract with the School Department.

Mr. Sullivan answered yes.

Alderman Levasseur asked and how many years was that to go for.

Mr. Sullivan answered five.

Alderman Levasseur asked what year were you into.

Mr. Sullivan answered I believe three or four.

Alderman Levasseur asked so you still had two years left.

Mr. Sullivan answered one or two years. I don't remember.

Alderman Levasseur stated and by resigning you actually broke the contract and now they are not responsible for paying you anymore.

Mr. Sullivan replied that is correct.

Alderman Levasseur asked how much money would that have brought your company.

Mr. Sullivan answered our fees have ranged from \$60,000 or \$70,000 a year up to about \$150,000 a year.

Alderman Levasseur asked so by resigning you just threw away \$200,000 out of your company.

Mr. Sullivan answered I don't look at it that way because we are busy and we have a long list of people waiting for our services so we don't lose any money.

Alderman Levasseur stated but it is revenue you could count on in the future.

Mr. Sullivan replied well we will have the same revenue because we have other clients.

Alderman Levasseur stated I like to try to get both sides as much as possible. I know we haven't heard from the other side, but in all of your other auditing of other schools, have they ever been going through a separation from the city side.

Mr. Sullivan replied oh, yes. That is not uncommon. Again, we not only have school districts, but almost every city and town that we audit has a city/school relationship. Some of them are separate districts. Most of them are dependent school departments and Manchester is somewhere in the middle. It is very unique as an entity but we have city/school relationships and sometimes they, too, have divorced in ways similar to the way that the Manchester School District has.

Alderman Levasseur asked and as far as this divorce goes compared to the other divorces, how would you rate this one. Nasty?

Mr. Sullivan answered it is not only nasty, it is unworkable.

Alderman Thibault stated my question is and maybe I missed it but I want to know if, in fact, you ever notified the School Board about the overexpenditures that were going on at the time.

Mr. Sullivan replied I talked to individual School Board members.

Alderman Thibault asked did you talk to them as a Board.

Mr. Sullivan answered no.

Alderman Hirschmann stated to get beyond fault and get more towards a workable solution, I noticed the reportable conditions about cash. Is there a recommendation...I mean when the School Board gets their budget they get \$100 million or \$110 million or whatever they get they get but they don't get the cash on that day so as a result money is transferred to the School District at intervals. So, obviously the School District has been having cash flow problems. Did you make a recommendation to help them in the future? Can they in fact...say we appropriate \$114 million this evening, the City isn't going to give them that money tonight but could they, in fact, go to a financial institution and get a draw down account of \$114 million and draw that money down safely and then the City could pay the tax back, kind of like a tax anticipation note. Is there a recommendation in here to help the district is what I am asking?

Mr. Sullivan replied my understanding is that Bond Council has advised the banks that the School does not have the legal authority to borrow in anticipation of taxes. Any such borrowing would have to be authorized through the Board of Mayor and Aldermen.

Alderman Hirschmann stated so in fact they have to manage their cash as the City gives the tax funds to them.

Mr. Sullivan replied right or the City borrows for them.

Mayor Baines stated we had conversations with Bond Council several or eight months ago in regards to that.

Alderman Hirschmann asked did you say that was based on the court.

Mr. Sullivan answered no that is based on Bond Council.

Alderman Hirschmann asked could they challenge that in court.

Mr. Sullivan answered I don't know. The court could rule one thing, but whether or not the bank would honor...

Alderman Hirschmann interjected it seems to me that if we appropriate a sum of money to the District it is, in fact, their money and if they went and borrowed that same amount of money from somebody else and drew down on it, the City would not be in any harm. It would be a workable solution I would think.

Alderman Gatsas asked from a cash basis, the cash flow for the School side would probably be at the largest risk somewhere in May/June.

Mr. Sullivan answered I believe that somewhere in the neighborhood of November cash is pretty low and then May and June would be the next period of time.

Alderman Gatsas asked so the end of June is probably a situation when they are at their lowest because they aren't receiving the State aid and they are paying summer checks.

Mr. Sullivan answered they pay the summer checks in July and August. By then the first distribution for taxes is made to the School. So, July and August are okay and even parts of June have been okay because I believe that the City has advanced some of that tax money before June 30 to help them through that period of time. You are correct in saying that May/June are probably the lowest months of the year in terms of cash flow.

Alderman Gatsas asked in the Year 2000, June of 2000, how much did the City advance the School Department to make payroll.

Mr. Sullivan answered I think that Mr. Clougherty could probably answer that better than I could. Off the top of my head I don't remember. I think maybe \$6 million or \$8 million.

Mr. Clougherty stated I think you are right. It was in that ballpark. We have a schedule and we could certainly provide that but it was several million dollars to meet payroll.

Alderman Gatsas stated when I am saying that their cash flow situation is probably the worst in June, if the City is advancing the money that certainly is a major problem.

Mr. Sullivan replied well I am not sure it is a problem. If the City has the School's money on deposit to advance it to the School, I think, to alleviate a cash flow problem would seem to be a reasonable thing to do.

Mr. Clougherty stated I think that is correct. We can only advance to the School what we collect in taxes. If we get to a situation in a year where the tax bills are delayed or people aren't paying their taxes and payments come in and aren't sufficient, then we may not be able to get over to the School District a sufficient amount of cash to cover their obligation. That conceivably could happen. If the School District wants the City to borrow on their behalf, the City would go out and issue tax anticipation notes or arrange for that but the School District, out of its appropriation, has to pay for that additional interest cost. That is not something that the City has budgeted or is going to cover. It has to come out of their appropriation.

Alderman Shea asked when money comes down from the State where does it go. Does it go to the School Department to does it go to the Finance Office? You know the catastrophic money and the Claremont II and all of these other funds.

Mr. Clougherty answered it goes to the School District. In the event it comes to the City we will move it over immediately to the School District. We don't sit on it.

Mayor Baines stated the other problem that is created for the School District, am I correct on this, the federal funds Mr. Clougherty are sometimes delayed and that is part of the problem.

Mr. Clougherty replied right. Again, that can add to pressures at any point in time when they may not have sufficient cash.

Alderman Cashin asked, Mr. Sullivan, maybe I misunderstood you and if I did you can correct me but the \$1 million that we allocated for capital improvement from this Board, is it your testimony that the money was spent in other areas to satisfy deficiencies in the operating budget.

Mr. Sullivan answered no.

Presentation by representatives of the Manchester School District.

Mr. Tanguay stated I did want to apologize to the Aldermen for my departure last time. I didn't feel as though I was ready to respond to your questions and that is why I left. I am sorry if I offended anyone in the process and apologize to you. At this point, I would like to present the School Board budget for FY02. Before I do that, I would like to introduce the members of my team and one of my bosses, Brad Cook, the Chairman of the Finance Committee. To my right and your left is Cathy Hamblett, Assistant Superintendent for Elementary School who has just accepted a position in Litchfield as an Assistant Superintendent. We will be sorry to see Cathy leave. She has done a great job.

Mayor Baines stated let's formally acknowledge Ms. Hamblett's dedication to the Manchester School District.

Mr. Tanguay stated as you know Tom Brennan left last year to be a Superintendent in Kearsarge so Manchester is a good training ground, if you will, for administrators. To my left is Karen DeFrancis, our accounting supervisor. To her left is Ron Chapman, our School Business Administrator. Next to Ron is Arthur Adamakos, Assistant Superintendent for Secondary Education. Next to Arthur is Karen Burkush, our Director of Student Services. I would like to begin by going through a budget of \$119 million. That will be followed by a budget presented by the Mayor of \$114 million and the effect of the Mayor's budget, at least what we have come up with for recommendations and nothing has been presented to the School Board for approval should the Mayor's budget pass but nevertheless we discussed some of the options regarding the Mayor's budget. I would like to begin at this point with the mission statement and I will run through this quickly. I know you have seen some of this before. It is the mission of the Manchester School District to provide safe, healthy, nurturing and respectful environments in which all students have the opportunity to acquire knowledge and skills that will enable them to become life long learners, as well as positive and productive citizens. The success of our schools can only be achieved through collaboration and interdependence with the community. The District is committed to utilizing all resources towards this exciting challenge. The School Board's goals for 1999 through year 2002 include to develop an education plan for the District so that the highest quality of education will be available for all students; to evaluate the curriculum which has been an ongoing process in the last several years; to develop an implementation plan for alternative school models and that continues to be studied and is a challenge; to complete a long-range facilities plan which has been completed and we know have a 10 year facilities plan which basically will service the School District into the future but also needs to be enhanced and revised on an annual basis; to develop a long-range fiscal plan, which is being worked on at this time; and to continue to maintain, revise and adopt Board of School Committee policies and procedures. The Board policies are coming along quite well. The School Board has been basically working on

those policies for about a year. I think I mentioned to you four years ago the Board policies that existed consisted of about 184 policies. The Board contracted with the NH School Board Association to develop new policies and also update its present policies. That will end up with policies totaling closer to 400. We are pleased that that process is going along so well. Some of our accomplishments include the NESDEC study, which you know was the impetus for the facility study, which resulted in the Parsons-Brinckerhoff's District Wide Facilities Forecast. That is both the engineering study and the architectural study. That also is a long-range plan for the School District. The elementary report card revisions was done for grades 1-6. Middle school implementation and the New England League of Middle Schools involves all of the middle school implementations, the four middle schools that we presently have, the enhancement and also the in-service that is required relative to some of the programs being offered such as the new math curriculum. We are working very closely with the New England League of Middle Schools to achieve that challenge. The audit of educational effectiveness, the school match was conducted about two years ago and from that we were able to come up with a reorganization of the district offices and were able to address the drop out rate which is still actually being studied. We also were able to talk about the excellent teachers that we have in Manchester and the challenges that face us with facilities being the number one item on that report. Curricula committees presently in existence, including Social Studies. Social Studies is a new curriculum committee. Our Social Studies program now includes textbooks that go back to 1984/1985. That is the highest priority going into next year's budget and you will be hearing more about that next year. The High School mathematics is also being worked on. The middle school mathematics, which I talked about a moment ago and the secondary science and comprehensive guidance program as well. Some of the challenges that we are facing relative to our budget include state funding uncertainties and you have all read about that and I will not dwell on that issue. Competitive professional salaries. Presently our principal salaries are very competitive, however, our teacher salaries are getting to that point. They are more competitive than they were a couple of years ago, but with the new contract we are seeing some improvement and hopefully that will attract some features so that Manchester will not be faced with a teacher shortage. Accommodating diversified student needs. We have approximately 1,437 ESL students at the present time and that continues to grow. Meeting the requirements of NH minimum standards and high school accreditation's of the New England Association of Schools and Colleges. We are still working on the accreditation issue relative to the high schools. We feel that that will be turned around probably in the next year or so. The NH minimum standards that exist also address such things as lack of capacity in our schools, safety issues, class size, library needs that have to be met, etc. Addressing district-wide class size reduction is another issue also addressed in NH minimum standards. Reducing inequities in pre-school, K-12 libraries. We are presently

behind relative to NH standards, especially in the area of books for our libraries. Evaluate the limited space in school facilities because of enrollment needs. Central High School, as you are well aware, is an area that we need to focus on.

McLaughlin School, presently the addition will solve that capacity concern. We also have Weston, Northwest, Green Acres, McDonough, Henry Wilson, Beech and Manchester Developmental Pre-School. Addressing competing resource needs. Obviously as we present our budget and as the Board of Mayor and Aldermen deliberate next week, we will be competing with other departments of the City relative to dollars for our budget. Assessing long-term needs. That goes not just to facilities but also our curriculum needs on a long-term basis, as well as our fiscal needs. Again, a fiscal plan is necessary; at least a five-year plan that can be annually updated to better project what our fiscal needs will be. Proposed initiatives in the budget of \$119 million include the School Board's goal of alternative school programs, mentoring, which is a Best School's initiative. We have presently two teachers in our budget to address the mentoring program. A full day kindergarten. Library collections. We have about \$420,000 in our textbook account and I will get to that in a moment to upgrade or to bring in more volumes of books for our libraries in at least 21 schools. Assessment. We presently have the NEAP or the state test at three grade levels. We feel that it is important to bring in other assessment tools, such as standardized tests for grades 5 and 8. One of the areas of concern with the NEAP scores is that despite the fact that in some instances we do not do that well, our SAT scores contradict that because we do, in fact, quite well. So, we are of the opinion that another assessment tool will help us in assessing how well our students perform.

Technology upgrades continues to be a concern. We recently had a technology study performed by outside consultants called the CELT Report. It indicated that our technology needs would run about \$12 million over the next five years and our budget does not come close to funding that kind of money. The middle school Spanish program is a high priority for the School Board. We would plan on hiring four Spanish teachers for the middle schools. Space needs. Again for Central High School, the alternative school program and District administration. District administration is a high priority as well. We have outgrown our facility and we need to find other available space. Title I Preschool Program is for ages 3-5 and that is one of the exemplary programs we have in the School District that has been shared on a national basis. We also have in our budget a health curriculum.

Basically, that would provide for the first time in Manchester a health curriculum on a K-12 level. Establish expendable trust funds. As you know, we consistently overspend our budget in the areas of special education and ESL is another area that we are very concerned about. It is an area where we need to have some sort of reserve as we do for insurance and other purposes. Proposed budget priorities. Again, additional space for Central High School; Library, addressing state minimum standards for collections and technology; teachers for the mentoring project. We have in our budget 71 additional staff and they are made up of 26

teachers district-wide, with 7 of those teachers for regular education, 4 ESL teachers mandated by federal law, 15 special education teachers mandated by federal law, 21 school based clerical assistants for special education, 8 educational assistants for SPED or special education, and 4 alternative school instructors. Also, four middle school Spanish teachers, 2 Business Service positions, 2 health positions and that is for the K-12 curriculum and these would be middle school health teachers, 2 portables for the elementary programs – the ESL at McDonough and also deaf and hard-of-hearing at Green Acres, which is actually a replacement of the existing portable and 2 technology technicians. We presently have over 2,100 computers and we have a staff of about four technology people. Initiatives not in the budget. The budget process looks at the entire School District on a global basis identifying the needs and from those needs we develop our priorities and initiative which you have seen but what remains to be done is an adaptive physical education instructor is not in the budget. A full day kindergarten expansion at McDonough and Wilson schools is not in the budget. ESL for a new high school program is not in the budget. ESL educational assistants for elementary and high school are not in the budget. Additional elementary art and music teachers, additional reading specialists for elementary and middle schools, pre-school through grade 12 guidance counselor, additional elementary media specialists, Title VIB class size reduction continuously planned are not in the budget. We presently have 22 Title VIB for class size reduction. It looks as though that will be funded again this year. That is the latest word that we have received from Washington but we, at this point, do not have that confirmed. Summer positions recommended by school match, which are not in the budget are a Director of Curriculum, Professional Development Coordinator, and Assessment Program Evaluation Coordinator. Also, this is not a school match issue but a teacher resource center is something that we do not have in Manchester and will 1,100 teachers it certainly is needed. Special education staff to address increasingly complex student needs and caseloads are not in the budget. Summer programs not in the budget are classroom furniture and equipment replacement plan and also sufficient funding for the CELT Report Technology Action Plan. Our enrollment numbers as we view them...our best projection now based on the October 1 comparison from year-to-year and October 1 is the date that is used nationally for enrollment purposes, indicates a growth of about 206 students. If you were to add all of those numbers up, it comes to about 1,200 students I believe over the last five years, which is about the size of one middle school. It is also one and a half times the size of an elementary school and close to what we would like to see a high school figure at, which would be about 1,500 students. Estimated revenues. Based on the information that we have received to date from the state, the adequate education grant will increase by \$5.4 million. School building aid, area vocational school, driver's education, catastrophic aid, those will not change. Child nutrition will increase a little bit by \$6,000 and the state tax will increase by \$2.9 million. The child nutrition program will show an increase of \$118,000.

Medicaid we expect will go down to about \$100,000 from \$1.5 million to \$1.4 million. Tuition account is projected to show an increase of about \$274,000. We did overestimate that account this past year so the increase is much smaller than anticipated going into next year. Food service shows an increase of about \$552,100. Impact fees. We had put in \$300,000 and in checking with City Planning they said the number is closer to \$160,000 so we revised that number downward. Just one note of interest. On the area vocational school, as you know in another year or so the School of Technology will be a building that will belong to the School District and a question was asked will we lose the area vocational school aid and my information is that that money will still be available. We have now for total revenue and credit an increase from \$79.8 million to \$88.9 million or an estimated \$9 million increase in total school revenues. The salary account which includes, as you know, all salaries, wages and stipends paid to employees, severance pay, overtime and earned bonuses, etc. we are looking at an increase of \$5.9 million from \$59 million to \$65 million and we will go over that detail in just a moment. In employee benefits we project an increase of about \$2.3 million from \$14.4 million to \$16.8 million. Tuition reimbursement, which is monies for courses for administrative staff is about \$12,000. There is no change in that account. Bargaining units. This is all by contract – MEA, AMP, AFSCME, and MESPA. Per contract that amount will be \$112,213 or an increase of \$32,213. Professional development for bargaining units will also increase to \$24,500 per contract. The total amount will be \$100,000. Professional services, professional instructional programs, legal and accounting services, and outside medical services will increase by about \$203,941. We budgeted that at a low estimate and that represents \$1 million this past year for the audit. We are now spending at a level of about \$800,000 and on that the good portion of those costs are for consultants for special education and legal services for special education. For the record, the attorney that handles those cases, Dean Eggert, goes to Concord with Karen Burkush to work on the cases that we have and a couple of those cases will save us upwards of \$40,000, \$50,000 or \$100,000 depending on the case in terms of outside placement. So, those legal fees are certainly well worth it. Also, we have in that the regular accounting services and legal fees for our personnel issues and other miscellaneous issues. Contracted services will increase by \$23,872. Athletic officials, temporary staff, assistants used in emergencies and heavy workload of special projects. Custodial supplies. There is no increase in that account. Repairs and maintenance has an increase of \$108,070 mainly for instructional equipment repairs, copier maintenance contract, intercom maintenance, telephone network maintenance, alarm systems, NORESCO, fire extinguishers and elevator maintenance. Rental of land and buildings. We are showing an increase of \$202,869 and that includes a warehouse lease, portables for elementary schools and Hillside, Southside and McLaughlin, athletic fields, the pool rental at NH College, Easter Seal classrooms for the Manchester Development Preschool and Wilson kindergarten. Rental equipment is basically

almost all lease copiers in the schools and in the administration building and how an increase of \$34,709. Transportation for regular education shows an increase of \$47,000. That includes regular transportation for education and MST, ESL students, bands, field trips and athletics. The same transportation this time for student services for both in district special education students and out-of-district special education students showing an increase of \$50,394 and Karen Burkush will do a presentation on special education in just a little bit. Telephone shows a decrease of \$18,179. Postage has an increase of \$6,400 and that is for the distribution of the District newsletter, district wide use of US Postal Services such as mailing of grade reports, parent newsletters and district wide correspondence. Advertising continues to rise. \$19,500 is the amount we are seeking. As you know, with the teacher and administrator shortage the need to advertise now becomes more of a global approach so that we do more regional advertising as well as advertising in some of the trade publications at a national level. Printing and binding shows an increase of \$10,000. Printing and binding is basically for student handbooks, rebinding of textbooks and reference books, newsletters, printing, etc. Tuitions. That would be for special education, in state and out-of-state, as well as for the deaf and hard of hearing programming showing an increase of \$436,765. Last year we increased our budget by about \$700,000 and based on our latest projection for this year we will just about be there so it is helpful to increase that budget. Travel. That shows no increase. That is for the mentoring program and district wide expenses for travel among the schools. General supplies show an increase of \$167,370 and that is for student workbooks, office and classroom materials, consumables, athletic supplies, etc. Natural gas shows an increase of \$45,606 and that is for heating and instructional use. Electricity shows a decrease and that is for all district wide classrooms and portable classrooms. Fuel oil also shows no increase at this time. I think we will be just about at the level we budgeted at for this year. Books has increased \$836,100. That includes replacement of K-12 textbooks. Lab reference books, which I mentioned before, we put in the request for \$20,000 per school for 21 schools, which is \$421,000. We also put in about \$500,000 for the K-6 language arts program as a maintenance of what we have in the existing program. New books for additional students, subscriptions, health curriculum textbooks and social studies textbooks upgrades K-12. Equipment. Equipment needs far exceed the amount we requested in the \$643,358 additional funds. Our equipment needs run into several million dollars but we only budget what we think we can build into the budget that is affordable. There is new instructional equipment needed to enhance student learning, updating of older classroom computers, updating of obsolete library computers, partial funding of the CELT Technology recommendations and on that particular amount, again the CELT Technology recommendation said we should spend just over \$12 million over five years and we have in our budget I believe \$500,000 as our first year investment in technology, which is not much at all. Furniture and equipment has an increase of

\$71,150 and again the needs far exceed what we are requesting at this point. Dues and fees show an increase of \$23,827 and that is for organizational dues, NH School Administrator Association, the School Board's Association, School accreditation expenses, and Administrator's dues per contract. Debt service shows a decrease of \$758,000. That number of \$8.194 million, I believe, is about \$160,000 more than the debt service schedule so there is some money in that account at this point. City services. Based on the budget that we have seen from most of the City departments, the requests came in at \$7.3 million or an increase of \$894,905. Community projects and partnerships show an increase of \$10,000 and that is basically for community and Chamber of Commerce events, the NH College Partnership, the state programs, Kids Voting and some recognition and awards programs for teachers and students. On special projects there is a decrease of \$64,133 and that basically would be for two modular classrooms for ESL and the deaf and hard of hearing programs, space needs at Central, space needs for an alternative school, and relocation of SAU offices and on that note we have in our budget about \$300,000 to take care of the alternative school if we are able to do that. There is not enough money to do all that we wanted to do with that \$300,000, but that is the amount of money we have in that account at the present time for those purposes. Graduation. Usual graduation expenses show an increase of \$627, which is basically a cost of living increase in that account. Expendable trust funds. Monies needed to establish reserve funds for special education programs, including ESL. We would like to establish that fund with \$100,000 so that in the future we have a reserve, which we do not have now in any of our balance sheet accounts. Again, that being one of the accounts, special education and the other being ESL and insurance being another one. We need to have reserves to put onto our balance sheet to take care of those contingencies. The general fund totals and this does not include Food Service, for FY00 is \$100,070,814. This year's budget is \$103,376,825. The adopted budget would be at \$114,907,862. That is an increase of \$11,531,036 over last year. The athletic budget shows an increase of \$317,059. A good portion of that has to do with City services showing an increase of \$150,000 and salaries with an increase of \$71,876. That is where most of the increase comes from. Food service budget, which is basically a wash, shows a slight surplus of about \$5,000. That has been a successful program over the years and it is a separate account from the general fund. Staffing analysis. We are showing an increase of \$5.9 million and that is made up of negotiated increases for principals at \$276,365, teachers at \$3.1 million, psychologists, educational assistants and we also have support staff and athletics. Most of those are negotiated increases. We also have the severance built into that at \$293,145. More teachers are retiring now so we need to put in more money. The salary adjustment increase of \$1,775,238...if you go back that is made up of all of the teachers we described before. The budget analysis...if you break out the negotiated/mandated costs from fixed and other costs, the negotiated/mandated costs total about \$89 million or 77.5% of our total budget

requested. The fixed costs are at \$19,512,783 and that is basically made up of some utility costs. Other costs include \$6,312,032, which represents about a 5.5% increase. Of that, it is arguable that the general supplies of \$1.225 million and textbooks at \$1.451 million total about \$2.6 or \$2.7 million and some of those costs should be in the mandated area for education. So, that totals the \$114,907,862. Again, the point to be made here is negotiated/mandated costs total 77.5% and fixed costs are at 16.98%. That leaves about 5.5% that we really have some discretion over how we spend. In the recap, if you look at our appropriation for the general fund, we are showing \$103.376 million for this year and going into next year we will supposedly have \$114,907,862. Let's focus on the general fund only because Food Service is going to be a wash but if we focus on the general fund and take our revenues of \$76.4 million that we covered before, for this year we have an assessment of what the local tax is based on. It is based on \$26.9 million. If we take this proposed budget of \$114.9 million and take out the \$84.7 million on revenues, we would end up with a district assessment of about \$30 million. Again, that is what the local tax is based on. It is important to note that despite the fact that we are requesting a budget of \$114.9 million excluding Food Service, the revenues generated by the School District total almost \$85 million so when the Aldermen...when you approve a budget of \$114.9 million, the net result of that is a \$30 million impact or this year a \$27 million impact on the local tax base. Food Service again is a self-supporting account showing appropriations of \$4.1 million and almost the exact amount in terms of revenues despite a surplus of \$5,000. The total general fund budget and Food Service of \$119.034 million offset by revenues of \$88.9 million or almost \$89 million again gives us a number of \$30,124,499. Also in this budget we do not include the capital projects, which is a separate account. It also does not include the special revenue funds of \$8 million so if you took in the \$8 million of special revenue and said what is the true cost of education, that would be a number that you would build into it so looking at this year's budget of \$106.8 million it would be closer to \$114 or \$115 million for education in Manchester excluding the capital projects. The District program outlines that you have in your book, the student services, the federal and state grants, transportation, ESL, school food and nutrition, athletics and fine arts. At this time, I would like to turn this portion of the presentation over to Karen Burkush who will brief you on special education. It is an area again that continues to cause some cost overruns but also it is a very important area and we believe that you should be fully aware of what happens in that program.

Ms. Karen Burkush stated on this first slide just to give you an overview of the number of students that our staff as of December 1 were working with...we give you the snapshot of December 1 because that is the date when we get our funding from IDEA and that is what the State Department of Education keeps track of as well. As you will notice, most of our students are learning disabled and fall into that category. The next group would be speech and language impaired and then

other health impaired. The total at that time was 2,715 students. However, if you go to the next slide to date, which was several weeks ago, the District has provided services for over 3,000 students with disabilities. I think that is really important for you all to know because students move in and out of the district. Tomorrow we could have a family that moves in with a very multi-handicapped child that will add to our budget significantly. In addition, the numbers from the census that we have from the Department of Education do not include the students that also attend our School District that are tuitioned in from Auburn, Deerfield, Candia, Hooksett which total 99 and students tuitioned into the deaf and hard of hearing program which total 18 and then 7 students who were placed in foster care via DCYF. Those students, our staff that we currently have, work with. That is an important part of our programming. I just gave you some back-up statistics in terms of state wide what the census is to date from our most recent data which is 32,874 students with disabilities who live in NH and are receiving services. For the Manchester School District, our census last year was 2,699. Last year the State Department of Education census for the entire state was 33,422. I want to caution you that was to date so we still have a couple of more months of data that can probably be put in so our numbers will increase. The next page actually last year I know that some of the Aldermen were interested in this data and again this year several Aldermen did ask for this information regarding how many referrals we get per year and how many of them actually result in getting a special education evaluation because not all referrals result in a child receiving an evaluation. We have to suspect that they have an educational disability to move on to an evaluation, but it still is very time consuming and our staff spends an awful lot of time through the referral process so that is just some data. For this year to date we have had 901 referrals to special education services. This includes children between the ages of 0 and 21. 628 of those resulted in a special education evaluations. Compared to last year we had a referral rate of 866 and 599 that resulted in special education evaluations. To date this year in terms of newly identified students we have 235 and last year we had 330. Again, we still have some time to go in the school year and for data to be input into our computer system through the state. This was also information that was requested last year with regards to discharges. We are discharging students. Students can be no longer educationally disabled. They are reassessed and found that their disability has been remediated. We have students who move in and out of state, receive diplomas or reach their maximum age. We unfortunately had one student who was deceased. We had students who moved to another NH district. That is generally our biggest transient rate is in and out of NH district and then students in the last category are those who have dropped out or we are unable to locate. Students that just move and we are not sure actually where they are. They left no forwarding address so that was data from this year-to-date and last year. Just to give you an idea of all of the different programs that we are required to provide and we certainly do in Manchester because we have a really diverse community

and we have students that have really varying needs. I am not going to read all of those for you but it ranges from all of the different types of therapies like speech, physical, and occupational that we have to provide in resource rooms or in and out of the classroom. We have an autism program that we are very proud of at the preschool and elementary level. We have self-contained programs that are small and very staff intensive because those students are more disabled and required more assistance. Assistive technology. Students that are not able to speak or not able to communicate. We purchase devices and then provide them with services and training on how to use those devices that will speak for them or communicate for them. These are just some more programs that we do provide. School health services, tutorial, specialized transportation was broken into a little bit more, social work services, multi-sensory reading which is becoming a very big part of our budget. We have a lot of children referred for Wilson, Orton Gillingham, and Lindamood Bell reading programs because they are not able to learn how to read through the usual methods that are provided. In regards to special education tuition, we are required to provide free appropriation public education for all of our students. We do provide a wide array of services within our school district, however, we are not always able to maintain students in the district because we don't have appropriate services. Currently we have about 130 students and again this was prepared many weeks ago and I just want to caution you that there may not be 130 today. As a matter of fact, I am sure there are not but the ranges of the placements that we are funding range from \$17,405 to \$182,964 for one year for one student. They are quite costly. Our in and out-of-state proposed budget for next year for tuition is close to \$5 million. With regards to special education transportation, we are required to provide transportation. It is considered a related service and if we don't provide transportation for students so that they can get to the services, we would probably be liable if we were caught I guess not providing the transportation. We do transport a lot of students in and out of our district. Right now MTA has been transporting quite a few of our students. We are trying to mainstream, if you will, on buses and getting students out of riding small buses if they don't need to. So we have MTA that is part of our contract and then STS. STS does the majority of our contract. Most of the students who ride on the STS buses also need a monitor on the bus. They are small. We have our preschool program where all or a majority of the children are transported so they do need a monitor on the bus. Those buses do cost more. Finally, we have other providers. If STS or MTA are not able to provide the transportation if it is a unique case like one student in particular is going from Manchester to Waddell school out in the Peterborough area so we had to get a different provider and the provider is called The Provider. We have used Goffstown Trucking. We have used different other vendors and we also had a summer school program where we had close to 300 students. Actually this year I think it is going to be closer to 270 but we also need to transport those students to and from school on a daily basis. Just some other statistics that we thought would be of interest to you. Research by the US

Department of Education concludes that special education costs 2.28 times as much as the average per pupil expenditure in any state. Using the current national median expenditure of \$6,588 per student the estimated national average per pupil cost for a special education student would be close to \$15,000 a year. It is very significant. We gave you information regarding last year's special education costs and the year before. We don't have this year's costs to date but we did make some efforts to contain costs. Last year at the budget presentation there were discussions of how we were trying to bring students back and how we are trying to reduce our tuition costs. We continue to do that through development of in-district programs. As I mentioned before, our autism programs at Smyth Road School have been very successful. They are staff intensive but they are still cost effective and we are keeping students in our community that if we did not have these programs would be transported to programs outside of Manchester and most likely out of the state of NH. We are also securing staff to implement more individualized programs, such as the multi-sensory reading specialist, Lindamood Bell and Wilson reading. We are trying to increase our staff development for principals, teachers and paraprofessionals and we did that this year. The principals had a principal's academy on a Saturday as one example and we went over special education and what the responsibility is of the principal to help us with procedural issues that we might get into. We are also securing consultants to train and assist our staff so that we don't have to place students out of district. Our biggest contracts are with several autism consultants and behavioral consultants. We also this year had a new position added, a special education program coordinator and that person is actually looking at the different programs that we have in the district and looking at curriculum development and how we can improve our program so that we can reduce the cost of students that are going to be going to out-of-district placements. The court liaison position was also extremely helpful this year and seemingly and we don't have all of the data yet but it has reduced the number of CHINS petitions and truancy petitions that have gone to the courts, hence we have less students placed out-of-district. That has been a really great position to have. We are also auditing student files and making sure that our students are getting the services that they require so that parents or teams aren't coming together at a meeting and all of the sudden realizing that the student wasn't getting the services they required and then the parent requests and out-of-district placement. Also, we are auditing files to make sure that staff are keeping with the criteria for identifying students so we don't over identify. Last year we had a paraprofessional study that looked at how effective we were in utilizing our paraprofessionals. We have tutors and educational assistants. The study resulted in the district adopting a more programmatic approach to paraprofessionals and it was part of the management letter for the last couple of years for us to really grab a hold of how we are utilizing paraprofessionals in the budget and that study has really proven to be very helpful budget wise. The other part of our costs would also fall under Section 504 and the Americans with Disabilities Act. Students who

fall under Section 504 of the Rehabilitation Act can still receive services through the school district and it ends up being in many instances that there are special education staff who are providing those services, as well as our regular education staff but this also adds to the number of staff that we need to provide more specialized programs. Currently we have 266 students under Section 504 and they can receive any related service like occupational therapy, physical therapy, speech therapy, some behavior modification, simple accommodations to their tests and where they take their tests. There are a wide array of accommodations that they may need. Then we wanted to give you an idea of the funding that we currently receive. For this school year, our IDEA grant or Individuals with Disabilities Educational Act grant we received the full entitlement, which was \$1,584,921. Preschool Entitlement grant. We also received all of that funding through our grant submission. Catastrophic aid for 1999/2000 was \$1,168,825. How we get this just so you are aware is we if we have a student that goes into an out-of-district placement that costs us 3.5 times the estimated state average then we can get catastrophic aid for that student's tuition. Medicaid. As Mr. Tanguay indicated, we are looking at \$1.4 million. The reason why we have estimated that this is going to go down is the criteria and the documentation and what type of services have become a little more stringent so we are anticipating that it will be reduced. In the special education allocation and the cost of an adequate education we received \$7 million or a little over \$7 million for that. That concludes the special education section.

Mr. Tanguay stated thank you, Karen. I would like to continue. I have a few more slides to go through. The budget impact...this is using the Mayor's \$114.8 million budget. Options to be considered and again these are just options. Nothing has been recommended to the School Board at this point. Recommendations will be forthcoming once a final budget number has been adopted by the Mayor and Aldermen. The budget options would affect the following accounts: salaries by about \$1.1 million, benefits by \$470,000, repairs and maintenance about \$180,000, textbooks by \$420,000 and that basically would take out all of the monies for the library collection that we put in, technology and equipment by \$500,000 which basically would take out all of the technology money. Again we needed \$12 million over five years and we have about \$500,000 in that account that I believe that most of that money is coming out. City services would be cut by about \$590,000. Again, these are just our projected options at this point. Expendable trust fund would come out. Athletics would be reduced by \$160,000. We do not have any recommendations as to what programs would be affected. The fine arts would be affected by \$50,000. That would be a cut from the \$119 million budget to \$114 million of about \$4.1 million. The initiatives that would be retained or what would be considered at this point for recommendation to the School Board would be the mentoring and best schools initiative, which is also a negotiated item in the MBA agreement. That is for two mentoring teachers.

Space needs for Central High School and district administration at \$300,000. Technology would be reduced somewhat to \$33,202. Teachers for the mentoring project would also remain. Nineteen teachers district wide to address growth and those are the special education teachers, 4 ESL and 15 SPED teachers. There would be no teachers for growth. Eight educational assistants would remain. Again, this is a mandate of the federal government. Two business service positions we would retain. Two portables for the elementary ESL program at McDonough and a deaf and hard of hearing program. These are items that would be taken out of our budget. The additional assessment instruments for grades 5-8 (\$35,000) would come out. Again, that would leave us with the NEAP or state tests as our only assessment tool. Technology program or the CELT Program, the entire amount would come out at \$500,000 so there would be no additional monies or no monies available to fund that program, which is a \$12 million program over five years. The health curriculum would also come out. There would be no K-12 health curriculum. The Spanish curriculum, textbooks and supplies would come out. The expendable trust fund at \$100,000 would come out. The library, again addressing the state minimum standards would come out at \$421,000. Seven regular education teachers would come out. Four alternative school instructors would come out. Twenty-one school based clerical assistants for special education would come out. Four middle school Spanish teachers would come out. One technology technician, and two health teachers would come out and benefits would be reduced accordingly. Other reductions would include other salary reduction savings from retirees, custodial supplies, repairs and maintenance. Textbooks would be reduced by \$333,900. City services by \$594,065 so the total decrease that would affect those accounts and those programs would be \$4.1 million. Combined budget analysis. Again the general fund would show \$114.9 million budget without Food Service. That is an assessment of \$30.129 million. Using the Mayor's number, we would have a budget of \$110.718 million excluding Food Service. Our revenues would be constant at \$84.7 million and district assessment would be \$25.9 million. That would result in a savings or excess monies going back of over \$1 million to the City. If we look at the comparison between our operating budget this year and next year's proposed budget at the \$114 million level excluding the Food Service, the categories again are in a summary form on a one pager without having to go through the entire book. They are all captured and I won't go over them in detail but \$6 million in salaries alone and benefits of \$2.3 million. Rental of \$200,000. Tuition at \$436,000, textbooks at \$836,000 and total amount of \$11,531,000 less the general fund revenues would give us an increase of \$3.1 million. Now that is very different from looking at a budget number of \$119 million or \$114 million and saying we have an \$11 million increase when, in fact, the revenues would be offsetting that. So the total cost of education fully funded based on the adopted budget by the School Committee would be increased by about \$3.1 million. I

believe the tax rate on that would be about \$82 on a home of \$100,000. Comparing the same information, the FY02 budget that the Board approved, comparing that to the Mayor's budget, the categories that would be reduced, again in a one page summary total \$4.1 million and I won't go into that detail. It is all listed. That concludes the presentation on the School Board adopted budget for FY02 and we are open for questions at this time.

Alderman Wihby stated first I guess I have a question for Karen. On Page 55 and 56 of the budget book, when it says newly identified students in Manchester is that 235 saying that there are 235 year-to-date of new special education and when you turn the page and it says people who moved out at 329 are we to assume that there are 100 less special education students than there was the year before?

Ms. Burkush replied they come and go and how the census works is on a particular day they are counting and we may have data that is not put into the computer but that is what it indicates that to date that many students have moved out of state.

Alderman Wihby asked so is it fair to say that in the last two years we have had a drop in special education students.

Ms. Burkush answered to date we have. FY99/00 at the end of the year would be the combined year. Everything in that year so we haven't finished our school year just yet.

Alderman Wihby asked how about FY1999 to FY2000. It says 330 new and we have already finished that year and it says 438 less so we had a drop in special education students of over 100 for that year and then we have another drop of another 100 this year so it looks like we have less students in special education. Is that how I read that report?

Ms. Burkush answered we don't have all of the data for this year.

Alderman Wihby asked so in 1999/2000 we had less students.

Ms. Burkush answered yes.

Alderman Wihby stated and it looks like we are going to have less students this year too. So is the cost of special education going up not because we have more students but because costs are going up?

Ms. Burkush replied I think there are two things. Costs definitely go up and we have rate increases on all of our students that are in out-of-district and then we have contracts for occupational therapy and physical therapy all of those do go up.

Again, on the census on the first page it shows you that we had 2,715 students as of December 1, however we have had kids who have moved in and out of the district throughout the year and we do keep track of that so to date we have had 3,023 students that we have actually worked with. They may have stayed with us for three months or four months, but they come and they go and that really adds to our cost. Over school vacation we got another student who had been placed at Wedeco and it is close to the end of the year and they were placed by another school district and it is in the best interest of that child to stay so we won't count him on December 1 but it is certainly going to cost us from now until the school year about \$6,000 just for his tuition and then the transportation for the rest of the school year, which is \$185 a day. It is difficult to say...that is a snapshot of a certain day on a December 1 count that the state department gives us but throughout the year we have students who come and go all the time.

Alderman Wihby asked but there are more leaving. Is that true?

Ms. Burkush answered maybe on that certain date in terms of the data that we get for that certain day or throughout the year but it is going to vary every single day.

Alderman Wihby asked if we took another snapshot in another month then it could be reversed.

Ms. Burkush answered absolutely. It is just complicated because they come and go. It could be the same student that could live in Manchester three times in one year.

Alderman Wihby asked, Norm, do you know how much was spent on the Winframe computer system.

Mr. Tanguay answered about \$785,000 was the amount that was approved.

Alderman Wihby asked do you know where you got that from because when you came to us with your budget there was no money in there for computers.

Mr. Tanguay answered I don't have the answer to that but I can get it for you.

Alderman Wihby asked do you know how much it is going to cost for the Metaframe conversion.

Mr. Chapman answered a little less than \$20,000.

Alderman Wihby stated I noticed in the report...how many additional accounting or legal administration people are you adding in the budget. It looks like zero.

Mr. Tanguay replied we have some changes in that in terms of business services and human services. I believe Mr. Chapman has that information.

Mr. Chapman stated those people are included in the 71 number.

Alderman Wihby asked in the 71 where is the breakdown of who everybody is.

Mr. Chapman answered that is in the back of the package with all of the employee listing.

Alderman Wihby asked where does it say something in the 71 about administration.

Mr. Tanguay stated on Page 7 of the PowerPoint presentation it shows the positions that total that amount. It begins with 7 regular teachers, 4 ESL teachers, 15 SPED, 21 school based, etc.

Alderman Wihby asked where is administration.

Mr. Tanguay answered the two...

Alderman Wihby interjected so you are adding two and those are the positions that you are talking about in the management report that you are going to be adding.

Mr. Tanguay replied yes.

Alderman Wihby stated it says currently you are interviewing and filling two positions.

Mr. Chapman replied that is true.

Alderman Wihby asked so you are filling them this year.

Mr. Chapman answered we are hoping to have them filled before the end of the year so we can get the data done for the audit in a timely fashion to keep people on board and up to speed so that we don't have some of the problems we had when I first got here last year of trying to figure out where everything is with all new staffing.

Alderman Wihby asked so you are hiring them this year in this budget.

Mr. Chapman answered we are going to hire them at the end of the month. I think they will start in the middle of June.

Alderman Wihby asked were they in your original budget last year. Did you ask for them? Did you tell us that you were going to hire two additional administration people?

Mr. Tanguay answered they were not in the budget last year, no.

Alderman Wihby asked how about on Page 17 when you talk about adding accounting staff. Are those the same people?

Mr. Tanguay answered yes.

Alderman Wihby stated establishment of a health insurance expendable trust. How much money are you putting in that?

Mr. Tanguay answered \$100,000.

Alderman Wihby asked where is that.

Mr. Tanguay answered it is on your list.

Alderman Wihby asked what account.

Mr. Chapman stated the expendable trust that we are talking about is for ESL and special education. Given the situation that we are in one of the things we are doing is through the process we have to come before the Board of Mayor and Aldermen as the legislative body to get approval to set-up expendable trust funds for the school district. Our goal is to try and get that done during the June Board of Mayor and Aldermen meetings if that is possible and that is what we are trying to establish so we would in the future have an insurance trust fund possibly funded through either excess revenues or through an appropriation such as we put in the budget this year.

Alderman Wihby stated we are expecting 200 more students. How many classrooms do we have in the City?

Mr. Adamakos stated I will give you the rundown. Right now as of May 30 we are looking at a plus 335 individuals but they are spread throughout the entire population. In other words, they are not all appearing in one location. The highest increase is at Memorial. Right now we are projecting 230 additional people. Now

whether they all show up or not remains to be seen. As you well know during the summer people move away and come in. These are not net figures but as of today in comparison to October 1 numbers we are looking at plus 335. I don't think that 300 number will hold but certainly 200 would.

Alderman Wihby stated so 200 more students and we need 7 more teachers for those 200 more students.

Mr. Adamakos replied well we currently have a percentage of classes that are oversubscribed so we are trying to say that we should thin some of these areas out. Without any additional staff we are going to have several classes, I mean over 100 probably of sections at the high school level of over 30 students. As a matter of fact, Memorial is looking at numbers between 32 and 35 based on space.

Alderman Wihby asked how many of these 7 teachers are for Memorial.

Mr. Adamakos answered right now the two problematic areas are foreign language and science at Memorial. At Central we are looking at English and another curriculum area, which right now off the top of my head escapes me. As a matter of fact there might even be three at Central. We are looking at some positions at the middle school. Hillside is looking at a plus 126 right now for next year.

Alderman Wihby stated wait a minute. If you are telling me 300 and Memorial has 230 and Hillside has 100...that is it, those two schools?

Mr. Adamakos stated what I am saying is right now with these numbers we have not seen the settling out of what happens. During the summer everyone who is scheduled to be there doesn't necessarily show up so right now we are looking at a net 335 but I am pretty much closer to the 208 or 200 figure.

Alderman Wihby stated but if I just add Memorial and Hillside I get over 300.

Mr. Adamakos replied right but that is assuming that everyone shows up. What I am saying is we have issues now that we are not addressing in this current budget.

Alderman Wihby stated so when you write down to address enrollment growth it is really not necessarily enrollment growth it is probably to take care of some of the problems that are going on now.

Mr. Adamakos replied plus enrollment growth because if everybody does show up we have to have a plan to address that or we are going to have class sizes over 35.

Mayor Baines asked can I get a clarification before we move on that because that is very troublesome to me. You are projecting 230 more students at Memorial High School for next year?

Mr. Adamakos answered 239.

Mayor Baines stated so going back to Alderman Wihby's question, why are you projecting 300 system wide when you have 230 right there at Memorial.

Mr. Adamakos replied because we have a decrease of 40 students at one location, a decrease of 70 students at another location but once again these numbers are not firm numbers.

Mayor Baines asked give me an example. A decrease of 40 and 70 where?

Mr. Adamakos answered 43 at West.

Alderman Wihby asked so how many teachers did you cut out of that.

Mr. Adamakos answered none right now.

Alderman Wihby stated so it is okay to add teachers to take care of 43 new students but it is not okay to cut teachers if you have 43 less students.

Mr. Adamakos replied well 43 individuals spread among four grade levels it is kind of hard...

Alderman Wihby interjected that is what I am getting at. 200 new individuals spread over 2,200 classrooms is an extra one person in a classroom if you want to use your philosophy.

Mr. Adamakos replied but we are only asking for seven people district wide to address concerns that we have this year that weren't addressed plus some growth issues for next year. Seven people is not a lot of people.

Mayor Baines asked where are the 70.

Mr. Adamakos answered McLaughlin.

Alderman Wihby stated you have an asterisk next to a number on the back page and you were nice enough to give us on Page 65 an asterisk that says includes anticipated savings on retirees and then you break it down on Page 68 and say that is \$250,000. Is that true? Is that how I read that?

Mr. Tanguay replied that is an estimate at this point but that is correct.

Alderman Wihby asked so explain to me if I have this sheet that shows 36 teachers at an average of \$48,000 retiring, which adds up to \$1.7 million and then I add 36 teachers to come in at \$33,000 and I have an almost \$500,000 or \$600,000 difference but yet you are nice enough to give us \$250,000. How do you get to that number or even close to it? The difference between \$48,000 and \$33,000 is \$15,000 times 36 teachers. You can't add? How do you get the \$250,000?

Mr. Chapman answered the \$250,000 is an estimated number that given all of the teachers who were leaving last year the number was set at \$33,000. We ended up with critical shortage areas in what we used to call the home economics area. We ended up hiring people at \$47,000 or \$48,000. That accounts for some of that money. It is not going to account for all of the money obviously.

Alderman Wihby stated so when you show us how much money you are going to have to lose and what the Mayor's budget is going to do for you, seven teachers at \$232,000 I don't know if that even adds up to \$33,000. Maybe it does but why didn't you use \$50,000?

Mr. Chapman replied basically what has been used here in the past has always been a five BA or a three MA classification for putting in new hires and staying with that kind of a number that is pretty low for bringing in a new hire.

Alderman Wihby stated I guess if you are going to say that you are going to cut teachers and it is going to be this bad for you and yet you use the \$33,000 and it is good enough to say that you are going to hire the \$33,000 and use that number for the difference that you don't need, which is an extra \$300,000 or \$400,000 that should have been in that line item which means that you could have not cut books \$400,000 or whatever the number is because you could have just used the extra number in the teachers difference in pay and said we won't cut books at all. That is how we can play with these numbers if we want to make them look bad or good. The other question I have is in FY02 how much do you have for attorney fees and accounting fees in the budget? First of all how much are you going to spend this year and how much next year to you have budgeted?

Mr. Chapman stated we all know in setting the budget up that we budget at a certain level because we know there are other things that are going to come up, i.e. we haven't even talked about the benefits issue yet that I am probably going to say we are going to need...we budgeted at a 10% level and we know the cost of the new contract is going to be close to 22% to 24%. That is about an \$800,000 hit that we haven't got budgeted in. I know the Mayor included that in his number.

He bumped the number up by \$800,000+. I think going through this budget in total we can pick out certain areas and say well you have a few dollars here and there, but I think the issue is that when we all get down to it and you have done this long enough that we all know there are some areas that we need to build some cushion into so that when these unexpected things come up that we haven't budgeted for...

Alderman Wihby interjected I would have built the cushion into the benefits and said I am going to need it there and you are right on the salaries for the difference between the retirees and a new teacher coming in. Put it where it belongs.

Mr. Chapman stated no matter where we put it, it is going to be a problem. We all know that as well.

Mayor Baines stated while we are talking about benefits, a lot of the Aldermen, including myself, are receiving calls from teachers asking why we are considering getting rid of Blue Cross/Blue Shield when there hasn't been any discussion about that whatsoever. Do you know where that is coming from?

Mr. Tanguay replied no. We are not considering. As a matter of fact the School Board Finance Committee and the Board itself approved going with Anthem so there is a miscommunication on the part of the MEA and that has been clarified.

Alderman Wihby asked what about attorney fees and accounting fees for this year and next year.

Mr. Tanguay answered the attorney fees for this year to date is approximately \$128,000. For auditing fees it will be close to \$40,000. The fees that we have in the budget for legal costs next year run about \$80,000 and auditing runs at about \$50,000 for next year. I might add on our legal fees again to make the point that it includes special education legal fees and it only takes two or three students to make up a lot of that expenditure.

Alderman Wihby asked are you going to overspend your budget this year.

Mr. Tanguay answered in total no.

Alderman Wihby asked are you going to be coming back to us asking us for additional appropriations.

Mr. Tanguay answered if we have to we will. Right now we are not anticipating doing that. We have projected about \$70,000 after 11 months. We also have excess revenues of about \$650,000.

Alderman Wihby asked this year you have \$650,000.

Mr. Tanguay answered approximately yes.

Alderman Wihby asked where is that from.

Mr. Tanguay answered it is from interest income.

Alderman Wihby asked what is your total interest income going to be this year.

Mr. Tanguay answered I believe it is about \$650,000 or \$700,000.

Alderman Wihby asked so \$650,000 this year and I don't see any number for next year.

Mr. Tanguay answered it is not in the budget.

Alderman Wihby asked how come.

Mr. Tanguay answered that hopefully will be a reserve that we can build into the budget as a balance sheet item for either health or other purposes.

Alderman Wihby asked so you expect another \$650,000 a least.

Mr. Tanguay answered correct.

Alderman Wihby asked if you are not going to come forward with any appropriation, you are going to have an extra \$650,000 to use for a fund balance.

Mr. Tanguay answered right.

Alderman Wihby asked is that the only fund balance that you are going to have.

Mr. Tanguay answered it is the only one I am aware of at this time.

Alderman Wihby asked so you are not calculating the other \$650,000 in because you want \$1.3 million for a fund balance. Is that what you are anticipating?

Mr. Tanguay answered no. It would be \$650,000 for this year. That money would go back to the City obviously unless you allow us to establish a reserve fund.

Alderman Wihby stated so let's say you don't overspend this year and you are putting in another \$650,000 for next year so you are going to have \$1.3 million next year.

Mr. Tanguay replied if you allow us to keep the money this year yes.

Alderman Wihby stated if you don't come to us and you put the \$650,000 away...I mean it is your money.

Mayor Baines asked Mr. Clougherty to clarify that.

Mr. Clougherty stated I am not aware that you are going to give us \$650,000 at the end of the year are you, Norm.

Mr. Tanguay replied we have been giving reports to the School Committee and also the Board of Aldermen each month indicating that we anticipate in excess of about \$650,000 in that revenue account and \$70,000 in expenditures so about \$700,000 in total.

Mr. Clougherty stated but that creates a fund balance for the School District, not to come back to the City.

Mr. Tanguay replied thank you. That is our money.

Alderman Wihby stated we can set up a fund balance. We probably would do that if we had anticipated revenues. What I am getting at is that is going to be a fund balance for next year that you are telling me you are not going to come forward and ask for an appropriation so the following year you have the \$650,000 that is not recorded anywhere that you will also have on top of the \$650,000. School Committee Member Cook is shaking his head no, but where is my thinking?

Mayor Baines asked why is the answer no to that.

Alderman Wihby asked are you coming forward with an appropriation.

Mr. Cook stated you had a report earlier, which we haven't gotten to yet and I hope we don't get to at all but it showed on our audit that there was a deficit to be dealt with. My anticipation has been, as Chairman of Finance, absent a resolution of the declaratory judgement that puts significant more money on our side of the equation, which is one of the possible outcomes, that we have yet to talk about and resolve the deficit. One of the available places and I hate to spend the School District's money without the School Board having talked about it, but there are only a few places to get the money to take care of the deficit. The excess revenue

being one of them. Should we prevail in some or all of the \$7 million+ declaratory judgement items or if we are able to sit down and negotiate them, which would be my preference, then we will have money to take care of the deficit from there but to think that this report that you got before has no impact on future budgets or on...and the Mayor has certainly provided for part of it in his budget, I think we have to make provisions to cover that. At least that is what we have been anticipating in Finance that we have to take something. I mean this idea that the future doesn't relate to the past I think we need to take a look at the situation.

Mayor Baines asked Mr. Clougherty to clarify that.

Mr. Clougherty stated I think what he is saying is accurate. These dollars will flow to fund balance and will have to offset against any deficit that they have in fund balance from previous years.

Mr. Tanguay asked, Alderman Wihby, are you not getting our financial reports indicating how we stand financially both on the expense side and the revenue side.

Alderman Wihby replied no. We had asked for that back in July and we were told we were going to get it monthly. I have a School Board member that sends it to me.

Mr. Cook stated we have been sending it to the City Clerk.

Mayor Baines asked Carol is that true.

Deputy Clerk Johnson answered I will have to check on that.

Alderman Wihby asked, debt service, for this year's budget you have \$8.952 million. You have transferred out of that \$758,000, no you transferred into that \$758,000 so your anticipated debt service would be \$9.7 million yet next year you are expecting it to be \$8.1 million. How did we drop almost \$2 million?

Mr. Tanguay answered the lease purchase was taken out of that basically. That is why...it was charged to this year's budget and it is no longer...it has been paid off so that will not exist next year.

Alderman Wihby asked it is last year's lease so it should have been last year for that number.

Mr. Tanguay answered correct.

Alderman Wihby stated you are still \$800,000 off. \$8.9 million compared to \$8.1 million.

Mayor Baines stated just for clarification we put \$500,000 in the revenue number for interest income in our budget.

Alderman Wihby asked in what revenue number.

Mayor Baines answered the overall revenue for the School District.

Alderman Wihby stated not it isn't. It is not in the number that is here. There is nothing that says interest income.

Mr. Robinson stated it is in the Mayor's budget.

Alderman Wihby asked where is it.

Mr. Robinson answered under the total number.

Alderman Wihby replied no the total number they have is the same number that you have and they don't have a line item for interest income.

Mayor Baines stated we will clarify that.

Mr. Clougherty stated I just want to remind the Board on debt service that the actual amount is \$8.12 million but that is going to have to be adjusted because of the action that the Board took as a result of moving some of the dollars from the Riverfront Project. What will happen is the City's debt service side will go down and their side will go up so the numbers they are showing here are going to have to change. If you are going to adjust the \$114 million you have to realize that that is not the right number right now.

Mr. Tanguay replied as I mentioned earlier that number is high. I think it is about \$150,000 more than the actual debt service. We have another \$150,000 there.

Alderman Wihby asked can Mr. Clougherty explain that again.

Mr. Clougherty stated if you recall as part of the CIP there was an effort to try and provide the School with some additional dollars. That debt service for those projects had been budgeted on the City side. That debt now has to be absorbed by the School District because it is going to be used for School purposes. That was done, I would guess, after they had prepared their budget so that debt service number that they are showing up there has to go up because it has to increase to

include the debt service that they are going to be paying on the improvements to the schools that were in this year's CIP.

Alderman Wihby stated so for this year they have \$8.9 million and you are saying it should be even higher than the \$8.9 million.

Mr. Clougherty replied no. It will be higher than the \$8.1 million.

Alderman Wihby asked so what makes the difference between the \$8.9 million and the \$8.1 million.

Mr. Clougherty answered we haven't issued bonds so there is declining payments.

Alderman Wihby stated so the \$8.194 million has to be changed.

Mayor Baines asked do we have the exact number on that, Kevin.

Mr. Clougherty answered we will have that in the next day or so.

Alderman Wihby stated but do we agree that the number is the number whatever that number is is what we are paying in debt service.

Mr. Chapman replied I think that is what we are agreeing to. If it goes higher than our \$8.1 million I am hoping that the Board of Mayor and Aldermen adds that to the Mayor's number or to our number or to somebody's number.

Alderman Wihby asked have we had problems with debt service now, Kevin, with the School paying it.

Mr. Clougherty answered there have been times when we make the payment and they reimburse us.

Alderman Wihby asked but the number that they are using, the \$8.952 million, is that what they are going to pay this year.

Mr. Clougherty answered yes.

Alderman Wihby asked so the number is the number.

Mr. Clougherty asked for the current year.

Alderman Wihby answered the current year is \$8.952 million and they have only paid year-to-date \$6.7 million.

Mr. Clougherty stated it is going to be close to that.

Alderman Wihby stated so it is \$2.2 million and this report was run 4/30/01.

Mr. Clougherty replied there have been payments since then. It will be closer to that \$8.9 million number.

Alderman Wihby stated so the \$8.194 million plus the additional \$1 million we agree is...whatever number that is what is going to be paid.

Mr. Tanguay replied the number that we come up with with Kevin is the number that we will have in there and it is not that \$8.1 million number.

Alderman Wihby stated as far as the City services, \$6.450 million is the number that is in there. You transferred \$300,000+ out so it is \$6.1 million and next year you say you are paying \$7.3 million.

Mr. Tanguay replied that is the budget request from the City departments at this point.

Alderman Wihby asked so \$7.3 million was the budget request from the City and are you agreeing on paying that number.

Mr. Tanguay answered it depends on what bottom line is approved. That is a flexible number regarding the Board's authority to spend that money.

Alderman Wihby asked are you paying the \$6.450 million this year.

Mr. Tanguay stated I believe we are paying \$6.1 million this year. We are paying based on what is being billed at this point.

Alderman Wihby asked so whatever the number was you are going to pay. Is that what you are saying?

Mr. Tanguay answered whatever they are billing us is what we are paying.

Alderman Wihby asked are they billing you for everything.

Mr. Tanguay answered not the full budget amount, no. So far they have not.

Alderman Wihby stated I look at the sheet and it is \$6.1 million budgeted and you only paid \$1.8 million.

Mr. Tanguay asked what sheet are you looking at.

Alderman Wihby answered the year-to-date numbers that you sent. \$4.3 million not paid and there are two months left. It is the year-to-date numbers that came in the mail.

Mr. Tanguay replied so you are getting the reports then from a Board member.

Alderman Wihby responded no this was sent to us from Wayne on May 30. He got it from the School Department. I had asked for information on year-to-date numbers and it says City Services \$6.1 million for this year and you have only paid \$1.8 million.

Alderman Hirschmann stated go to Page 71. It shows the deductions.

Mr. Tanguay stated we have paid more than that. We will have to get the number for you. That is not correct.

Alderman Wihby asked you have paid more than \$1.8 million. This comes from the School general fund number. That is a number that we always argue over when we pass the budget. That and the debt service.

Mr. Tanguay stated again we pay for services rendered basically and that is the bottom line.

Alderman Wihby asked as far as the revenues go are there any other revenues that aren't showing up on this that you receive.

Mr. Tanguay answered not that I am aware. I think you have them all captured there with the exception of the interest income.

Alderman Wihby stated I know on Page 63 that there was an individual disabilities grant, preschool grant...

Mr. Tanguay interjected those are all separate. That is the number of about \$8.1 million that I mentioned earlier that is not included in the budget.

Alderman Wihby asked that is not included in your revenue.

Mr. Tanguay answered no. It is a wash. It is an in and out item. We basically spend what we receive from those grants.

Alderman Wihby stated special education, cost of adequate education, and \$7 million. Is that a number that you report? \$7.151 million for special education allocation for the cost of an adequate education on Page 63. Is that in that total for revenue for school?

Ms. Burkush stated that is the portion of the whole adequate education that goes towards special education. That is just a break down of the \$42 million.

Alderman Wihby stated on the revenue page that you have, Page 12...

Mr. Chapman stated the \$7 million is the part of the adequate education grant that the state says pertains to special education.

Alderman Wihby asked so that is part of the \$42 million.

Mr. Chapman answered that is correct.

Alderman Wihby asked what about that other \$1 million that is on Page 63.

Mr. Chapman answered those are the IDEA grants, which are federally funded grants and carried in a separate fund.

Alderman Wihby asked that is the \$8 million that you have somewhere else.

Mr. Chapman answered yes.

Alderman Wihby asked so they don't show up in our numbers but you also have different expenses that equal that amount somewhere else that is not in the School budget.

Mr. Chapman answered that is correct.

Alderman Wihby asked how much do you have set aside for the School Administration to move.

Mr. Tanguay answered that number has not been determined only because we set aside \$300,000 to bring in portables at Central High School and/or use the Ash Street School for Central High School students and also use it as an alternative school. Right now we don't have any plans to move. We hope to have plans to move out of Ash Street this next year because we need the space but we have \$300,000 set aside and we don't have enough money at this point, I believe, to do what we want at Ash Street to bring in some students from Central.

Alderman Wihby stated just to make sure because I know we don't get your monthly statement, did you get our 14-0 vote last week saying that we don't want you to move.

Mr. Tanguay replied we did receive it and I shared it with the School Board and I won't tell you their reaction.

Alderman Gatsas asked where would you like to start. Let's start at this end. I think we had a conversation last year about attempting to make special education not an expense item but a revenue source and I was told that that takes a long time. Have we at least moved down the base path to first base to looking at it?

Ms. Burkush answered yes. As I said with our autism program at Smyth Road School we are building that. We have had several requests from other school districts to tuition students into our program, but our number of students with autism has increased. We are very nervous about taking any students in tuition wise because we need to cover our own students first. We were making that attempt but our numbers rose in terms of students with autism so we are really being very cautious about taking any tuition students but we have received several requests to date. We also had an alternative schooling committee that worked on many different ideas so we are trying on that end as well but those aren't fully funded for alternative schooling.

Alderman Gatsas asked the special education fund for the State of New Hampshire, do you have any idea of how many dollars that may be.

Ms. Burkush asked for the entire state; no I don't.

Alderman Gatsas asked ballpark.

Ms. Burkush answered I have no idea.

Alderman Gatsas asked ours is how much.

Ms. Burkush asked that we get from IDEA.

Alderman Gatsas answered yes.

Ms. Burkush stated \$1.5 million or a little over that for IDEA and then \$159,000 for preschool entitlement and that is our federal funding.

Alderman Gatsas asked that is the federal.

Ms. Burkush answered correct.

Alderman Gatsas asked what about state for special education.

Ms. Burkush answered there is \$7 million.

Alderman Gatsas stated so special education is about \$7 million just for the City of Manchester.

Ms. Burkush stated the funding out of the adequate education, that is the proportion.

Alderman Gatsas asked so if we look at that on a proportionate basis would you say that being the largest City that we may be 1/10 of the special education where we have 1/10 of the population in the state.

Ms. Burkush answered well...

Alderman Gatsas interjected if I gave you a round number and said it is probably \$60 million that the state sends out for special education wouldn't that be a nice source of income because I am assuming that other school districts are sending their special education children also with those same costs.

Ms. Burkush replied absolutely.

Alderman Gatsas asked wouldn't those costs be reduced because they would not be traveling the distances that they must travel.

Ms. Burkush answered correct.

Alderman Gatsas stated so if I am looking at a revenue source...let's be very conservative and say it is our \$7 million and maybe we can pick up another \$7 million. That is \$14 million as a revenue source. I would think that we would be looking at revenue sources instead of expenses because certainly that reduces our cost for special education to the City but we are concerned about not taking autism students in from other districts. The reason being?

Ms. Burkush answered because we have so many of our own that we need to service and also our facilities...where would we put another classroom so that would be an added cost. We would have to hire more staff so it is all going to be added costs and it does take at least a year or two to form a complete class.

Alderman Gatsas stated I would think that I heard that last year and we would have been at year two now if we had a plan in place to go that path. That is all right. Maybe we will get a little bit further ahead for next year to bring that revenue source to a different level. Mr. Tanguay, can you explain to me how you possibly can say that you have a \$300,000 set aside when you had a deficit for last year and how you think you have \$650,000 in interest income that is available to you.

Mr. Tanguay asked are you talking about the \$300,000 to move.

Alderman Gatsas answered yes.

Mr. Tanguay stated that is projected in next year's budget. We don't have it this year.

Alderman Gatsas asked where is the \$650,000 for this year.

Mr. Tanguay answered that is in the revenue portion of the report that you should be receiving and it is made up of interest income and indirect costs.

Alderman Gatsas asked did you have a deficit last year.

Mr. Tanguay answered last year...the audit report indicates that we had a deficit and I have a clarification on that. We had two audit reports presented. One showed a surplus of \$200,000, which took into account the revenue portion of it. The second report presented indicated a deficit of \$2 million. The question for the Board was which one do we approve. Well the \$2 million deficit would allow the City to have a qualified audit rather than an audited opinion and the feeling was that this would affect the bond rating, at least if we went with a positive fund balance. That is what generated the \$2 million deficit. On the \$2 million deficit also we have a lot of transitional issues that have yet to be addressed by the court. As Mr. Cook stated earlier, that could change the entire picture, at least for this year. Unfortunately it was not resolved last year, which could have impacted that number as well.

Alderman Gatsas stated I guess you didn't understand my question. My question was how can you show \$650,000 worth of reserves if you have an audited statement, whether it is qualified or unqualified? Well let me ask you another question instead. I will clarify my question. How much were you appropriated last year by this Board?

Mr. Tanguay stated \$106.8 million.

Alderman Gatsas asked and how much were you appropriated to spend in 1999.

Mr. Tanguay answered I don't have that number in front of me.

Mayor Baines stated it was \$100.6 million.

Alderman Gatsas asked how much did you spend in 1999.

Mr. Tanguay answered according to the audit report, and I would have to refer to that...

Mayor Baines interjected \$3.6 million more than you were appropriated, correct.

Mr. Tanguay stated the audit report before Food Service shows that the budget was \$98.342 million and we spent \$101.973 million. The actual amount of revenues came to \$99.960 million for a deficit of \$2 million.

Alderman Gatsas asked you were appropriated how much.

Mr. Tanguay answered the total appropriation was \$106.832 million.

Alderman Gatsas replied no, the year that you overspent. In 1999 you overspent by some \$2 million.

Mr. Tanguay stated in 1999 I believe we broke even. 1998 was the deficit year.

Alderman Gatsas replied no. The auditor...you know the discussion we had for an hour before this meeting, I would think that that number would be absolutely imbedded in your mind and you would know that better than any other number we are talking about. How much did you overspend your budget in the audited statement of FY00?

Mr. Tanguay replied the appropriation was over by \$3.6 million .

Alderman Gatsas asked so how can you tell me that you would believe that you have \$650,000 this year available.

Mr. Tanguay answered what I am telling you is that we have excess revenues. We will have about \$650,000 that has been generated for the School District. Now how that money is used and I think Kevin said it falls into a fund balance category, I believe it would have to go back to the Aldermen for us to get approval to spend that money or to apply it to any deficit.

Alderman Gatsas stated I would assume that if you have a deficit of \$3 million and you have \$650,000 you would then say you have a deficit of only \$2.4 million.

Mr. Tanguay stated except we have the transitional issues to consider that are yet to be resolved but you could say that, yes.

Alderman Gatsas asked transitional issues...oh that is that famous judgement that came down on my birthday I think. But those are transitional issues that you are assuming that you are going to be fortunate enough to have a judge rule in your favor.

Mr. Tanguay answered at least in part, yes.

Alderman Gatsas asked what if he rules in none of your favor.

Mr. Tanguay answered then we have a deficit that we have to deal with. We have a deficit for last year that we have to deal with. Any monies realized from the declaratory judgement would affect this year's budget. Any monies that come out of that would then be used...we would have a proposal for the Aldermen at that point on how that money should be used.

Alderman Gatsas asked but why has that opportunity now changed this year that you understand that this Board must allow you to spend those appropriations. Did you never understand that before?

Mr. Cook stated let me address some of this.

Alderman Gatsas replied I didn't ask you the question, Mr. Cook.

Mr. Tanguay stated the interest income in terms of expenditures is an unresolved issue. That is for the court to decide. Do you understand that?

Alderman Gatsas replied I understand that. That is \$650,000 of the \$3.2 million. That leaves you with \$2.6 million. Are you now saying that you would come to this Board if you overspent your budget by \$2.6 million for an appropriation?

Mr. Tanguay answered we would approach this Board with a repayment plan.

Alderman Gatsas stated let's try it again. If this Board gave you full funding of \$119 million, is it now your understanding that you would come to this Board if you spent \$120 million?

Mr. Tanguay answered yes. If we were to overspend our budget we would come to the Board before that happened and say we need a supplemental appropriation.

Alderman Gatsas asked when did you realize that situation.

Mr. Tanguay asked for last year.

Alderman Gatsas asked when did you realize the situation that you had to do that.

Mr. Tanguay answered during the course of last year that it was an open issue. We had a declaratory judgement that said we had the right to accept, for example, interest income. That is a contested issue now in the courts.

Alderman Gatsas asked did you realize that you had to come to this Board last January.

Mr. Tanguay answered what I am telling you is that it is a contested issue.

Alderman Gatsas stated you just said to me that you realized it last year at some time.

Mr. Tanguay replied I heard the question and I think I misspoke on the issue. My understanding is that it is a declaratory judgement issue that has to be resolved by the courts.

Mayor Baines stated I have a point of clarification here. We are talking about two different things. Interest income and unanticipated revenue. The interest income is something that is subject to debate. Going back to Alderman Levasseur's statement earlier, if you take that aside and just leave it as an unanswered question there is still \$3 million that was spent over and above the interest income that caused a deficit in terms of your spending over your appropriation. I think Alderman Gatsas wants to know why do you understand now that you have to come to the Board of Aldermen to get permission to do that and you didn't understand it last year. What changed that?

Mr. Tanguay responded what I am telling you is that it is an unresolved issue. It is an issue for the courts to resolve. Also, in that \$3.6 million because that seems to be the magic number, we had \$1.4 million that we thought the Aldermen were willing to give us to meet our benefit account costs and I remember last year Alderman Gatsas said to me well you have a \$1.4 million over expenditure in the salary account, which is why you want the \$1.4 million and your benefit account is fine. Not true. As a matter of fact, the benefit account went up by almost \$1.7 million without additional hires as you indicated would happen.

Alderman Gatsas stated I guess you made a statement that my presumptions were wrong.

Mr. Tanguay replied that is correct.

Alderman Gatsas stated I am saying to you I sat in this seat when you sat in that seat and Mr. Cook was in the hot seat and I told you that your overexpenditure was going to be \$3.2 million. I must have had a crystal ball because it was pretty close and I didn't have an audited statement to look at.

Mr. Tanguay replied you must have had a crystal ball, absolutely.

Alderman Gatsas stated so let's go back to the question. If you overspend \$119 million and you spent \$120 million would you come to this Board and ask for the appropriation to be spent?

Mr. Tanguay replied I would hope that by then and we are looking at next year's budget, that the court will have this resolved by sometime in October and the answer to that would be in the courts. If the court rules that it has to go back to the Aldermen for approval, I certainly would come back to the Aldermen, absolutely.

Alderman Hirschmann stated I just want to jump in because I still have your audit report hot off the press and on this exact issue you say that you concur with the auditor's recommendation that you would come back to the Board. It says in the event that appropriations voted by the Board of Mayor and Aldermen are different from that of the Board of School Committee, the Board of School Committee must revoke the allocation of the appropriation to establish certain spending limits. This vote should include object based budget parameters that require Board of School Committee approval for spending levels. In your response, you say we concur with the recommendation and the Board did take such action. So you are saying that you would revoke it at the Board of School Committee but you wouldn't come back here? Is that what you are saying? I am trying to figure out what you are telling the auditor because you responded to his question.

Mr. Chapman stated that particular item is different than the item that you are talking about. What that referred to was I believe...

Alderman Hirschmann interjected it says in the event that appropriations voted by the Board of Mayor and Aldermen are different than that of the Board of School Committee, such as the \$650,000.

Mr. Chapman replied the difference is that what they were talking about in the audit was that last year you appropriated whatever the number was...\$103 million let's say. The School Board had requested \$106 million or \$108 million. What the audit report has stated is that for that to be an official action at the School District level the School District had to affirm that they were willing to accept the \$103 million, which is the action that we did take in August of last year that they had not taken in July or August of 1999 for the 1999/2000 budget. That does not relate to an overexpenditure or an anticipated overexpenditure of the appropriation.

Alderman Hirschmann stated well I can read. I went to school at Manchester West and I know what this says. You are telling an auditor...I can read this. You may want it to say one thing but I can read what it says.

Alderman Gatsas stated, Mr. Tanguay, I am one of those people who keeps things from years previous. I think you came to this Board last year and you told us that you needed, for salaries for this year \$62.447 million. Is that correct?

Mr. Tanguay asked before the adopted budget, yes.

Alderman Gatsas stated in that adopted budget will you agree that you had in there \$2.7 million for salary adjustment.

Mr. Tanguay replied yes.

Alderman Gatsas stated that was, correct me if I am wrong or maybe you can help me with this, that was for teacher's raises was it not.

Mr. Tanguay replied teachers and I also believe principals.

Alderman Gatsas stated now if we just do some pretty quick math and take \$56 million that you had in your budget of FY00 and we taken 5% of that, that is somewhere in the vicinity of \$2.7 million for teacher's raises.

Mr. Tanguay replied and principals.

Alderman Gatsas asked can you tell me that teacher's this year got a 5% raise.

Mr. Tanguay answered no. They got 1%.

Alderman Gatsas asked is there a particular reason why they only got 1%.

Mr. Tanguay answered that is what we negotiated and 4.5% in next year's budget.

Alderman Gatsas asked so the \$2.17 million that this Board believed was in your budget of last year for teacher's raises...

Mr. Tanguay interjected subject to negotiation.

Alderman Gatsas replied no it wasn't subject to negotiations. If you take a look at...

Mr. Tanguay interjected it is always subject to negotiations.

Alderman Gatsas stated well wait. We did it on good faith and said the worst case scenario was 5%. You had it in this budget. You showed it to us. We said fine, that is subject to negotiation and that should be there. We applied it.

Mr. Tanguay responded we had in the budget \$2.7 million. Our budget was not approved at the level we asked for. That was the budget we had asked for. Therefore, we had to make an adjustment. In the adjustment we also negotiated a smaller raise for teachers for this year.

Alderman Gatsas replied I understand. Now if I took that number of \$56 million that you show me in your new sheet...

Mr. Tanguay interjected that also included step increases.

Alderman Gatsas stated right. 3% for the raise and 2% for the step increase. Do you agree with that? That is what we had assumed and that is what we had talked about in these Chambers last year.

Mr. Tanguay replied I do not believe when we present our budget we talk about percentages for teachers or principals. I think that being under negotiations we were not privy to share that information. That is my recollection. I could be wrong.

Alderman Gatsas stated well my recollection is that I took the \$2.7 million and I did a little math based on the assumption of what you were looking for in the budget and that was about 5%. That is what we were looking at and that is the number we were talking about. That wasn't a hypothetical. It wasn't a number that we came up with.

Mr. Tanguay replied the \$2.7 million was salary adjustment for teachers, principals and other people. That was the money set aside for negotiations. If we

are successful because our budget has been reduced to make up some of this money...that is exactly what we did.

Alderman Gatsas asked but if I took 5% of the entire number of \$56 million, that is even including the per diems that weren't getting 5% so we were being pretty generous with that number. I am saying that we negotiated here with the understanding that the teachers were going to get a 5% raise.

Mr. Tanguay answered that is not my understanding. I don't believe there was ever any agreement to that effect.

Alderman Gatsas stated well that is where we thought the money was going because that is what you showed us.

Mr. Tanguay answered no. That was set aside for negotiations with that understanding.

Alderman Gatsas stated well let's continue down the path that I want to go to. If we take that number with you showing an actual in FY01 of \$59 million and if we take 5%, again, for the entire amount which is much less than that because we are giving everybody a 5% raise and that is not what is on the books for all employees, that is about \$3 million. That brings you to \$62 million. Why do you need \$65 million?

Mr. Tanguay replied we have the new positions in there and also salary adjustment as well.

Alderman Gatsas asked so \$3 million more.

Mr. Tanguay answered it is right in the book. You have \$1.175 million for new staffing, \$350,000 for salary adjustment plus we have increases in other contracted employees.

Alderman Gatsas asked what page is that on.

Mr. Tanguay answered Page 29. So we have \$3 million for teachers, \$276,000 for principals and the whole list is there. \$1.175 million for staffing, etc.

Alderman Gatsas asked so you want to go back to these numbers so I should take these numbers and compare them to what you are showing me here and they should be somewhat identical.

Mr. Tanguay responded I am not understanding your question.

Alderman Gatsas stated I am saying the numbers from last year, when I look at this number and I say to you if I take your education assistants plus your tutors because that is the single line you have them on, tell me what you have for a total up there for FY01. Can you tell me what that number is, the number of people?

Mr. Tanguay asked the total number of people that we have in the budget for next year.

Alderman Gatsas answered no. What did you have in FY01?

Mr. Tanguay asked for next year or for this year.

Alderman Gatsas answered for this year.

Mr. Tanguay stated 1,605.

Alderman Gatsas replied no. Educational assistants and tutors.

Mr. Tanguay stated 278.

Alderman Gatsas stated if I take the book that you gave us from last year and I add what you show me for FY00 and FY01, it says 320.

Mr. Tanguay responded I think the difference in that is that we had educational assistants and tutors separated at that time. Some of those did not work full-time so they were part-time individuals and that accounts for, I believe, the difference in those numbers.

Alderman Gatsas replied no. They are both full-time equivalents so I am sure if they were part-time...

Mr. Tanguay interjected I don't believe they were.

Alderman Gatsas asked do you want to take a look at this book. It says FTE at the top.

Mr. Tanguay stated I think you will find that the salaries differ because they are not all FTE's. They are full-time, but not...

Alderman Gatsas interjected they look like they are the same.

Ms. Burkush stated we did change around how we use paraprofessionals and that is probably what happened. This year we had two FTE's for tutors. All the rest of the people got hired as educational assistants working 30 hours a week. Some of the tutors last year might have worked 30, 25 or 35 hours a week. I am not sure how that calculation was done.

Mr. Tanguay replied we will get an answer for you.

Alderman Gatsas stated let's go on to the next one. Let's talk about grants for a second because I think this is an important subject. The grants that you receive are a total of how much?

Mr. Tanguay replied about \$8.1 million.

Alderman Gatsas asked and those grants are federal grants.

Mr. Tanguay answered federal and state both.

Alderman Gatsas asked what do they include.

Mr. Tanguay answered anything from Title I to Preschool, Title IVB, VIB, etc. I think you have that detail in your book or at least you should.

Alderman Gatsas asked but those grants assume wages and benefits or not.

Mr. Tanguay answered not always but in most cases yes.

Alderman Gatsas asked so when you get a grant and it is X amount of dollars, are we assuming that those people have health insurance with that grant or funding with that grant.

Mr. Tanguay answered typically if they are eligible for health insurance it would be included in the grant.

Alderman Gatsas asked if that were the case, why wouldn't we be showing the grants here as income.

Mr. Tanguay answered we are not showing the grants as income.

Alderman Gatsas asked why wouldn't we be.

Mr. Tanguay answered we could. That is an item that we talked about before. It is usually done through the Planning Department and where the Aldermen approve

it, it is part of that process and that is where it is picked up. We have argued that we should, in fact, do that. We should show these grants in their total amount and the budget that goes with them. We would be glad to do that.

Alderman Gatsas asked so that should be an additional revenue source.

Mr. Tanguay answered yes.

Alderman Gatsas asked so when you show that revenue, is that part of the \$114 million.

Mr. Tanguay answered no.

Alderman Gatsas asked so really those funds are an additional \$7 million over the \$114 million.

Mr. Tanguay answered correct.

Alderman Gatsas asked are those funds, are those FTE's included in the numbers that you have here.

Mr. Tanguay answered not in the general fund, no.

Alderman Gatsas stated so none of the people if I took a look at the back of this book are on a grant project.

Mr. Tanguay answered they are separate.

Ms. Hamblett stated it is in the yellow book. If you look in the yellow book there is a section that says federal/state.

Alderman Gatsas asked so if I total those up, they should come less than the \$7 million for wages.

Mr. Tanguay answered yes.

Alderman Gatsas asked it should be less.

Mr. Tanguay answered yes because the grant includes wages and other things as well.

Alderman Gatsas asked like what else.

Mr. Tanguay answered equipment, contracted services, supplies, benefits, travel, professional services, etc.

Alderman Gatsas stated if that total is as close to \$7 million as it can be with the wage number that I am looking at because those people's wages at the back of the book don't include benefits do they. Do you have a total on that? I know that Alderman Vaillancourt was the next one in line and he has been waiting awhile.

Alderman Vaillancourt stated thank you, your Honor. I am not a School Board member. If I were I would have literally dozens and dozens of questions to ask you but as an Aldermen instead of a School Board member I just want to make a few comments. I want you to know that our overall goal is to watch the entire City, not just education and of course schools are one of the many things we have to watch. Two years ago the School Board received approximately a 10% increase and last year an approximately 10% increase. This year you asked for about a 12% increase from \$106.8 million to \$119 million. The Mayor's budget is up to \$114.8 million and was an increase of about 7.5%. I feel rather generous tonight and I would like to give you an increase of maybe around 5%, which would bring you in at \$112 million or thereabouts. I think 5% is about the cost that the state is expecting education to rise on average this year. So after getting 10% approximately two years in a row I think with 5% you could do very well and we could account for all of the departments in the City. I am somewhat disturbed and Alderman Wihby touched upon it that for approximately 206 new students you are requesting 71 new staff, which is an average of one new staff member for every 2.9 new students. Now I realize that you may be trying to cut back on overcrowding, but that still seems to me to be an extreme. The one area I would like to focus on, I believe it is on Page 12 of your presentation. Because you made it appear and in a sense it is true, that if we were to fund your full 12% increase up to \$119 million it would only cost the average Manchester homeowner about \$82 but I think what we have to understand is that the average Manchester homeowner is paying on that line for state tax from \$25.5 million to \$28.5 million. That is statewide property tax. Let's not kid ourselves, that is what that is so the average Manchester homeowner is already paying about a \$3 million increase in the statewide property tax and also the adequate education grant from \$36.8 million to \$42.2 million by the state is not just money that the state gives without any cost to the citizens of the state. Now we don't know what it is going to be yet. If it is going to be an income tax, a sales tax, a consumption tax, gambling or some pig slop of some sort, but it will be something. Whatever proposal it is, that \$42 million will be something that comes from the taxpayers of the citizens of Manchester. I think we have to keep that in mind that this \$42 million and the \$28 million from the statewide property tax is money that the citizens of Manchester are paying. I just don't want to look beyond that. As I said, I feel generous. I think that 5% would be a generous increase. The one specific question I would

want to ask would be in the athletic budget. I notice that in the salaries in that department there was about a 30% increase last year and now on top of that this year you are asking for another 20% increase. I assume this is for coaches' salaries over a two-year period. That is on Page 47. It is going from \$345,000 two years ago to \$428,000 this year to \$500,000 requested next year. It looks to me like a 50% increase in two years. Are there new coaching positions that we are filling? Are we creating new sports?

Mr. Cook stated Mrs. Stewart who is Chairman of Athletics regrettably couldn't be here tonight but she asked me to say that there were two components. We have some additional coaches, but our coaching salaries were so woefully uncompetitive and had stayed at the same level for such a long time that we were losing coaches to other school districts and they have tried to bring them up to par so it is combination of more and trying to make them competitive like we have tried to make other things competitive.

Alderman Vaillancourt stated when I used to cover the school meetings as a reporter up in the Plymouth area I used to get that line...the school board members used to say that line that their superintendent is so underpaid or the coaches are so underpaid. Is that a line...do we have an imperial data that would back that up?

Alderman Levasseur stated I don't want to play nickel and dime games on \$115 million and this probably sounds small but in your electricity budget you have gone up by \$6,000 when we are expecting a 10% decrease in electric rates, which would save you \$200,000. We have taken that out of every other budget that the City has and you actually increased yours by \$6,000 and you are talking about...it is an automatic 10% cut that has been negotiated so you are at about \$200,000 over there. Actually \$120,000. That is just something you can think about. I am also wondering...the numbers that you gave us on Page 49 of your presentation today, those numbers in the FY01 budget are those going to be your actual numbers for your salaries? You have teachers at \$47 million. Are those going to be your actual salaries?

Mr. Chapman stated at the end of April we made an adjustment to move some money back, which is the year end numbers that we have.

Alderman Levasseur asked which would go down.

Mr. Chapman answered yes. In total I think our salary line on the April statement went up about \$230,000. I think I provided the Aldermen with that number. The 10-month versus the 9-month change.

Alderman Levasseur asked so the number wouldn't be \$47.156 million it would be \$200,000 higher or \$47.356 million.

Mr. Chapman answered that is what we would anticipate.

Alderman Levasseur stated I was looking at that number...I used that number and figured we were going at a 4.5% increase in this budget and it looks like you are about \$100,000 over on that. Is there a reason for that?

Mr. Chapman replied I think in the presentation to the Board of Mayor and Aldermen we had an increase scheduled for FY02 of about \$2.7 million if all of the staff stayed identical. I think we are within that ballpark. Some of that relates obviously to some track changes like somebody going from a BA to a BA20 or something.

Alderman Levasseur asked so you actually have to take into consideration a couple of extra increases in there but for principals you are over by about \$120,000. I can't imagine there is going to be much movement in that compared to the amount of teachers you have.

Mr. Chapman answered the only issue on the principals is we added one staff member this year and again it just depends on the changes. What we have in the FY02 budget is actual people. The listing in the back of the book are specific people that were there when I put the budget together in January.

Alderman Levasseur asked what is your enrollment in the summer for students. A couple of my constituents have called and asked that question specifically. Somebody wanted to know exactly what your enrollment was going to be this summer. Do you know what your enrollment was last year?

Mr. Adamakos answered I could get that for you. As a matter of fact we just went over those numbers last month.

Alderman Levasseur asked do you know what your last year's number was.

Mr. Adamakos answered I don't but I do know that the income portion of it was around \$70,000. We can get that number for you.

Alderman Levasseur asked how do you budget for that.

Mr. Chapman answered basically it is in the general fund budget and part of the \$94,500 that comes in as revenue.

Alderman Levasseur stated the Mayor's budget is around \$115 million and you have given us your number here, which is the \$119 million, but then you include the revenue from the Food Service. Does the Mayor's budget have Food Service in it?

Mayor Baines replied yes that is in the total. They both include it.

Mr. Chapman stated it is \$4.126 million.

Alderman Levasseur stated I was wondering because like last year, your Honor, we gave them \$107 million and we actually gave them \$103 million and then they included the revenues in there from the meals so that number is kind of like...

Mayor Baines interjected you are talking about Food and Nutrition.

Alderman Levasseur stated right. It is part of your \$119 million budget correct?

Mayor Baines replied it is part of their total budget and part of my total budget as well.

Alderman Levasseur asked as far as your food costs on your meals, it is 50%. That is a very high food cost. I would say somewhere around 30% is the average and you have 50%. I don't know why it is that way. I know they eat a lot of pizza and stuff. Does that sound kind of high to you, Mark?

Mr. Burkush stated the big explanation for that is we kind of kept meal prices level as food costs have gone up so we are kind of subsidizing what it is costing us.

Alderman Levasseur stated I thought that might have been what it was but that is a really high cost.

Alderman Hirschmann asked the state's school share portion of the tax bill, which comes out to about \$6.90 per \$1,000, if our tax base...I guess this is for Kevin. If our tax base goes up to \$5.2 billion is the state's school share still \$6.90 per \$1,000 or does that change?

Mr. Clougherty answered it changes.

Alderman Hirschmann stated obviously it goes lower.

Mr. Clougherty replied depending on where the valuation comes in. It could go higher or lower.

Alderman Hirschmann stated so there is no big windfall coming.

Alderman Vaillancourt stated I believe the House has actually lowered that rate to \$5.95. We don't know what will ultimately happen, but that is what is in the works now.

Alderman Hirschmann stated but the question remains if we go up to \$5.2 billion like the Assessor said we might, does \$5.95 become the number on that new number.

Mr. Clougherty replied conceivably, yes.

Alderman Hirschmann stated so you could take that take your calculator, Ted, and see how much school money we are getting. \$5.95 times \$5.2 billion.

Alderman Gatsas replied I think you are going to find a new funding solution coming out of the state so it is not going to be the same.

Alderman Lopez stated, Mr. Tanguay, I have discussed this with you before in reference to alternative education if you were given the Mayor's budget and the way I am reading this there would be no alternative education?

Mr. Tanguay replied that would be the recommendation...well that would be up to the School Board but that would be an option that we would look to eliminate.

Alderman Lopez asked can't there be some type of an agreement between this Board and the School Department on alternative education that whereby if there was money put in there which would be the total of...I know the teachers here are \$132,000 but you need more than that I presume so what would be the final number on total alternative education in the City of Manchester. Along with that could you tell us what the drop out rate is in the City of Manchester because I hear all kinds of numbers from people and we either have a bad system in the school system of people dropping out and the problems that they are creating and the police and YDC and all of this so could you elaborate just a little bit on how important alternative education is?

Mr. Tanguay stated I would ask Mr. Adamakos to respond.

Mr. Adamakos stated initially the program...we have had several meetings and the program would start small. There would not be a large number of students. As a matter of fact, we are talking about between five and eight students, students that we can pull out of special education services in the beginning that we think we could handle in our home area. That number would be added to the number of

students who get expelled who we really need to provide programming for. So the program would start very small in the beginning. We have studied a lot of alternative systems in the state and all of the successful ones have started that way. Of course, ultimately we are looking at expanding a program and we don't know how long it will take to get there, of including people such as the ones that you are talking about but our initial concept of the alternative school system, even though many things have been debated, was a small number of five to eight students that we feel we are spending a number of dollars on tuitioning them out. We want to bring them back in plus add the expelled students. It would not be a significant number those first few years but ultimately there would be a...we are looking at maybe and I don't want to tell tales without the committee input here but maybe 80 to 100 people ultimately, which would cover some of the people that would not be surviving in the other areas but we would take a few years to get to that point. Our first one is to find the most successful way to begin the program and that is by starting off with individuals who...

Mayor Baines interjected I don't want to interrupt but I think you should stick to the topic of costs and drop out rates.

Mr. Adamakos stated well here we are talking about \$232,000 which we were sending out for tuition and we would want to be able to take that money plus add some more because we know that number could come to about 12 students at the maximum for the first year.

Alderman Lopez asked what about the \$132,000.

Mr. Adamakos answered that would be the four people. Two instructors, a counselor and a supervisor/administrator because there is a vocational component. We want to abort that program and that person would be responsible for moving the people from wherever the site is to the vocational program at MST.

Alderman Lopez asked for the sake of time, I know it is a late hour but could we start a program that is long overdue in the City of Manchester for \$132,000.

Mr. Adamakos answered yes but it is not going to attack the problem that you are talking about in the first year.

Alderman Lopez asked but it will get us started.

Mr. Adamakos answered yes it will get us started.

Alderman Lopez stated then an agreement should be made between the School District, the Superintendent and this Board that if you had \$132,000 that would not be crossed out of your budget. Let me move on to special education.

Mayor Baines asked did you want the drop out rate question answered.

Alderman Lopez answered yes.

Mr. Adamakos stated it depends on how you calculate that. The state right now says somewhere between 6-8% per year.

Mayor Baines stated it is about 24% or 25%.

Alderman Levasseur asked so the figure of 30% in Manchester is not correct.

Mr. Adamakos answered that would be a cumulative total but by adding them up over four years you are counting some people twice or sometimes three times. Right now the state is working on...as a matter of fact I just went to a meeting last week...

Alderman Lopez interjected I don't care about the state. What about Manchester?

Mr. Adamakos stated 6% to 8% according to the state figures.

Mayor Baines stated I have a brief clarification on that. We also have Adult Education and a lot of these young people are recaptured through Adult Education so the number may not be as high as projected.

Alderman Lopez stated in reference to the talk about increasing special education, have you calculated, Ms. Burkush, what kind of funds we would get from special education if the increase was passed by the Senate and Congress.

Ms. Burkush asked to the full 40%.

Alderman Lopez stated I think it is an increase of up to 17% or 18%.

Ms. Burkush stated we are currently getting 13%.

Alderman Lopez asked if it was increased 4% my next question would be would that be a 4% surplus in your budget to do something else with Mr. Tanguay.

Mr. Tanguay stated that would be brought in as a revenue under the IDEA.

Ms. Burkush replied that is correct.

Mr. Tanguay stated it would allow us to do more with special education and alleviate some of the costs in the general fund.

Alderman Lopez stated Alderman Gatsas touched on this and I don't think I heard the answer. In reference to the \$2.7 million that was for salary adjustment, how much money from that \$2.7 million did you have remaining to put into other areas?

Mr. Tanguay replied we used approximately \$1.4 million or \$1.2 million to help offset the reduction in our budget. It went across the board for reductions. It was used that way.

Alderman Lopez stated on salary adjustment for negotiations when we come up with a figure and I think this year it is \$350,000 but next year it is going to be higher but if you don't use all of that money shouldn't it come back to the Board of Mayor and Aldermen since we gave it to you for that particular item.

Mr. Tanguay replied if the budget that we have submitted is funded at a lower level then we look at areas where we can make up that money and that is what we did this year in terms of the teacher and principal salaries and other salary adjustments. It is basically redistributed to accommodate the new number that we have to live with.

Alderman Pariseau asked on Page 51, you have an item there identified as special revenue funds in the amount of \$8.1 million. Where is that listed on Page 12 of your revenues?

Mr. Tanguay answered it is not. I mentioned earlier that that is not a number that is included in the \$119 million number.

Alderman Pariseau asked was that the number that Alderman Gatsas was referring to; the grant money.

Mr. Tanguay answered I believe it is.

Alderman Pariseau stated so in actuality your school budget or expenditures would be about \$127 million.

Mr. Tanguay answered correct.

Alderman Shea stated the Easter Seal is a rental right now. When does that expire?

Mr. Tanguay answered it is on a yearly basis. It is for one more year and then we will have to renegotiate or find another location.

Alderman Shea stated my understanding is that they are thinking of probably trying to sell that building.

Mr. Tanguay replied they have talked about that, yes.

Alderman Shea stated my second point is, Karen, would you say that the School Department receives 13% or 14% from the government now for special education.

Ms. Burkush replied that is correct through IDEA.

Alderman Shea stated we know that the PTO's play an integral part in the school program. How much would you estimate that they raise? That is kind of an unfair question per school but they do play an integral part. It shows that the parents are interested and it shows that there is a constituent out there that really wants to do things. How much would you say they raise? I know you meet with them and you talk about different items.

Mr. Tanguay stated right and I haven't asked them that question but I would say about \$20,000 per school or even higher than that.

Alderman Shea asked what do they do. Do they buy certain things?

Mr. Tanguay answered they buy equipment, computers, supplies and do a number of things. They are a critical piece to education because without their help it would be more difficult to meet our obligations.

Alderman Shea asked what would you say is the most integral part of a school district. What is the most fundamental ingredient in a school district without which you could not have a school district?

Mr. Tanguay answered the staff.

Alderman Shea replied correct so it is very important that you put qualified people into all phases of education and we shouldn't minimize their importance in the school. The other question that I have has to do with what Alderman Lopez was talking about. I want to go to the other perspective. He wants an alternative school for problematic children. I want a program for the gifted and talented kids

in our schools. If the City of Manchester wants to be number one, the best City that we can raise our children in and live in, we have to provide the students in the elementary and the middle schools with enrichment and talented programs. I harp on this year after year. We seem to spend money on athletic programs, which certainly I approve of. We spend money on the arts. We spend money on science but we don't really challenge the kids that come into the schools at a lower grade. We don't give them a foreign language and we don't provide kids who are going to be our leaders with the kind of course challenges that we should. I think that what happens is we focus so much on kids who create problems and are disciplinary problems that we lose sight of the fact that we cannot neglect these younger kids who are going to be our leaders. Our doctors, our scientists, our people who will be educators, and our people who will be professional people. Unless you folks at the School Department start to set-up programs in that regard, we will be talking about it from now until eternity. Thank you.

Mr. Tanguay stated we would support a gifted and talented program if given the money to fund it.

Alderman Gatsas stated, Mr. Tanguay, let me ask you a question. If you are showing us in FY02 revenues of \$88,910,013...

Mr. Tanguay interjected that is what we projected.

Alderman Gatsas asked if you receive revenues of \$88,910,014 would you come back to this Board and ask for an appropriation to spend it.

Mr. Tanguay replied it is the same answer as before. That is subject to the whole issue of excess revenues.

Mayor Baines stated I can't listen to that anymore.

Alderman Gatsas stated I see Mr. Danonbarger sitting in the first row. Would you like to ask Mr. Danonbarger what the answer should be?

Mr. Tanguay replied Mr. Cook said the answer is yes, we would come back to the Board.

Alderman Gatsas stated so maybe what we need to appropriate you is the difference between what your revenue source is and if you have no other revenue...you know of no other revenue is that correct.

Mr. Tanguay replied at this time that is correct.

Alderman Gatsas stated are there any other revenues that you know about in the past.

Mr. Tanguay responded other than interest income, that is the only one and the federal and state grants of \$8 million, which are not reflected in that number.

Alderman Gatsas asked don't you think they should be reflected so that we have a number and an idea of what revenues are.

Mr. Tanguay answered I agree and again it has been a footnote in past presentations.

Alderman Gatsas asked when you have additional revenues do you tell your School Board that you have additional revenues that you plan on spending.

Mr. Tanguay answered yes.

Alderman Gatsas asked did you tell the School Board that you were running at a deficit.

Mr. Tanguay answered yes.

Alderman Gatsas asked when did you tell them.

Mr. Tanguay answered in May.

Alderman Gatsas asked you told them in May of this year.

Mr. Tanguay answered yes.

Alderman Gatsas asked when were you told that you had a deficit.

Mr. Tanguay answered we had back in...if I go back to the management letter the statement was made that we had a deficit back in December. The management letter says that the information that was reliable was in February or actually early March.

Alderman Gatsas asked when do you think you had a deficit. Let's forget about the management letter.

Mr. Tanguay answered I think we had a deficit in May.

Alderman Gatsas asked you don't think you had one before then.

Mr. Tanguay answered no.

Alderman Gatsas asked May of this year.

Mr. Tanguay answered no May of last year.

Alderman Gatsas asked and at no time did you believe before that time that you had a deficit.

Mr. Tanguay answered that is correct.

Alderman Gatsas asked so what you believe is that from May 1 until June 30 you overspent in those two months some \$3 million.

Mr. Tanguay answered no.

Alderman Gatsas asked then at what point did you know that you had a deficit.

Mr. Tanguay answered in May.

Alderman Gatsas asked on May 1. How much did you think the deficit was on May 1?

Mr. Tanguay answered after we did the May report we had estimated about \$700,000 plus we had excess revenues to pick up some of that deficit.

Alderman Gatsas asked the excess revenues were from where.

Mr. Tanguay answered interest income at that point.

Alderman Gatsas asked anything else.

Mr. Tanguay answered at that point it was just interest income.

Alderman Gatsas asked so that was \$603,000.

Mr. Tanguay answered we had \$950,000 projected.

Alderman Gatsas asked well how much did you have in May.

Mr. Tanguay answered we projected \$950,000 in May.

Alderman Gatsas stated so you were planning on spending projected income, not actual.

Mr. Tanguay replied that is correct.

Alderman Gatsas stated and you still didn't think that you had to come back to this Board to spend it because you were over your appropriation.

Mr. Tanguay responded I was relying on the declaratory judgement at that point and that is what I told the Board.

Alderman Gatsas asked didn't Judge Nadeau say that you had to come to this Board to overspend your appropriation.

Mr. Cook stated if you look at the audit report that you got, which I think is a fairly accurate presentation of the confusion that faced everybody at the beginning of the fiscal year in which we had a declaratory judgement, a Claremont lawsuit resolution by the legislature and a total budget for the first time and all of the other things. One of the things that we went through was this additional income because we got several readings and lawyers on school boards are smart enough to take their advice from lawyers who represent school boards, we got several readings from counsel as they were beginning to understand the declaratory judgement that quite frankly gave us different interpretations of that as different parts became emphasized. There was a period of time when we assumed that...or the majority of the Board assumed that additional revenues accountable from appropriated monies could be spent along with the appropriated monies. There was another group of people who thought, and the auditor was one of them, that throughout the period you would have the extra revenue but the triggering authority for spending that revenue was your appropriating authority, namely the Board of Mayor and Aldermen. We went through the year trying to have a report that showed what the appropriation situation was and what the other revenues were without a determination of what to do on it because we didn't know, frankly, when that was going to happen. The School Board, and in answer to a question which I am not going to dance around, the School Board adopted during this present fiscal year not the one that was under audit, a set of procedures as things became clear that said until some court tells us with great definitiveness to the contrary before we spend a nickel of money over the appropriated amount we are going to get the permission of the Board of Mayor and Aldermen. That is one of the 11 procedures that we adopted and it is very clear and everybody understands that that is the rule until some court says otherwise because under the Charter under our understanding and under the most conservative presentation we can make, we have to be as careful as we can be and if we are as careful as we can be we are going to come back and get the authority before we spend money that we don't

have authority to spend. There is no doubt at the present time by this School Board that before we spend another nickel of income, even if we have it, and if you look at that audit report there is a \$3.6 million appropriation deficit. Now we made it as conservative as possible when we reported it to you so that we would have the most conservative combined audit that we could and we had extensive debate on the two options that we had but we voted as a School Board to make the most conservative presentation. It also makes it look as bad as it can for us but we can take that if it is going to protect everybody. The revenues, however, the \$850,000 that you appropriated already, the other additional revenues and all of the things that are there take the \$3.6 million down to \$2 million. You see that in the audit report. That wipes out the extra income. I assume at some point at a later date that we are going to have a discussion, all of us together, as to how we are going to deal with that deficit and when we do I assume we are going to say to you we need permission to spend all of those amounts other than the \$850,000 to cover it. If the declaratory judgement says that we get some of the money that we didn't have before, that will create an alternative pot of money to spend but before that happens that would have to be a component of the plan. It is not in doubt, as far as the School Board is concerned, that we need your permission to spend the money.

Alderman Gatsas stated we are at...today's date is May 31. When dealing with \$106 million budget with one month to go, are you in a deficit or a surplus?

Mr. Tanguay replied we estimate a surplus of about \$70,000 to finish the year.

Alderman Gatsas asked is that with the income from interest counted for.

Mr. Tanguay answered no.

Alderman Gatsas stated so then what you are telling me is that you should be telling me that you are somewhere at \$720,000.

Mr. Tanguay replied correct.

Alderman Gatsas asked then why wouldn't you say that.

Mr. Tanguay answered I said that before.

Alderman Gatsas replied I asked you just now and you said \$70,000.

Mr. Tanguay stated \$70,000 on the appropriation expenditure side of the budget and about \$650,000 on the revenue side of the budget for a combined total of about \$700,000.

Alderman Gatsas asked so barring any...and that is with insurance plans paid to date, claims paid to date...

Mr. Chapman interjected no.

Alderman Gatsas asked it is not.

Mr. Chapman stated the claims, just like the City has, go through that settlement process where you pay the bill the first part of May and you get settled up within 60 days following that. Blue Cross will send us a settlement of either a credit or an additional billing within 60 days.

Alderman Gatsas asked what is your claim run per month.

Mr. Chapman answered we have been pretty close to what the premiums are so we haven't gotten hurt at this point, but as we all know it only takes one.

Alderman Gatsas stated Mr. Tanguay I think certainly that there are interesting conclusions from this Board and your Board, however, during this whole process we have never heard once you know what I may have made a mistake and I am willing to sit down and try and fix it. It is all about a declaratory judgement and how you believe that you don't have to come to this Board until that judgement is met and I think it is unfair for one person to be standing between 28 people trying to serve this City in the best possible manner that we can. You know what? None of us have that control. There was only one person in control of the books so I would think at some point you might say in a humbling way gee I might have made a mistake and maybe for the best interest of this City and the students of this School District we should sit down and try to evaluate the process and go forward but during this whole process I haven't seen you do that. That is probably what upsets me more than anything.

Mr. Tanguay replied I agree with you that we should move forward. We should also not go to court...

Alderman Gatsas interjected do you agree with all of the points that I just made.

Mr. Tanguay asked can I finish.

Alderman Gatsas answered go ahead.

Mr. Tanguay stated I agree that we should be able to work things out. I agree that the declaratory judgement, which was approved by the Board of School

Committee, not by the Superintendent and also the fact that we have reason not to go to court we should be able to mediate this. I know that I have asked the Mayor about setting up a committee of both boards to mediate and I know that Tom Clark and Dean Eggert have met in trying to negotiate a settlement. My position has been that I have done what I felt I should do to meet the educational needs of the School District. The cost overruns have been mainly contributed to by mandated costs for special education and books and supplies. I feel that the declaratory judgement and I shared with the School Committee that we could in fact pick up certain revenues to offset any potential deficit and that is what we did. Now if it is found that that is not the case then obviously we will have to come back and the declaratory judgement is very clear. We have to absorb any deficit so we would have to make arrangements for the pay back. The bottom line is that I did not chose to overspend by \$3.6 million our appropriation, however, I felt strongly that we had means through the declaratory judgement as evidenced by at least one audit report which showed we had a surplus to accommodate the overexpenditure. I would certainly in the future come before the Board and ask them if we could, in fact, spend any excess monies.

Alderman Levasseur stated I have one more constituent question. Are you adding nine rooms to Central? Did you find extra space to make more rooms?

Mr. Adamakos asked are we physically adding nine rooms to Central.

Alderman Levasseur answered I know that you can't add an addition but did you find space to add more rooms.

Mr. Adamakos replied not that I am aware of.

Alderman Levasseur asked there is no additional space being used.

Mr. Adamakos stated right now we have classrooms in use that are not really the best as far as educational...you know being the best situation. I don't know anything about nine additional rooms being built out of thin air.

Alderman Levasseur stated, Mayor, I am probably going to leave this question with you and maybe you can use this in your final remarks. We see that they came to us for \$119 million or so and then you gave them a budget of close to \$115 million. Did you give them a bottom line number or did you give them...did you decide where the money was going to be appropriated or did you just say this is a number and this is what you are going to have to deal with?

Mayor Baines replied we looked at the whole budget picture in the City and tried to come up with some numbers that made sense and then we looked at the

negotiated contracts for principals and teachers and insurance costs and tried to factor in what it would allow the Superintendent of the School District to do to deal with enrollment increases and other increased costs and we came up with that number that we felt was a fair number.

Alderman Levasseur stated when you went department by department you were forced to include the prices for whatever increases there were for wages and also for any increases for health. When you made your budget adjustment you made the adjustment... obviously you knew what the principal raises were going to be and you knew what the raises for teachers and such were going to be. Did you go above and beyond what that amount is and then add in some extra money and have an idea where that was going to go?

Mayor Baines replied yes.

Alderman Levasseur asked and what did you have in mind for that. Did you know what that number was going to be when you included that in for the raises because we know... there was a 4.5% guarantee.

Mayor Baines answered we knew what we were looking at - what was spent last year for salaries, what was anticipated this year with the increases in looking at the negotiated contracts and that is what we used as a baseline.

Alderman Levasseur asked did you anticipate when you gave them that budget that there would be a decrease in athletics or any decreases in any of the other programs.

Mayor Baines answered no and in due respect to the Superintendent, he is not presenting you this evening with anything cutting back from this year. He is saying that he cannot do certain things that the School District would like to do. This does not include anything that is being cut for this year.

Alderman Levasseur stated I think that is a very relevant point. Mr. Tanguay I think that I would like you to expound on that. You will not be decreasing anything but these are just things that you wanted to add in above the Mayor's budget is that correct?

Mr. Tanguay replied if the Mayor's budget number prevails, a lot of the initiatives will not be met. We certainly will have to relook at the entire budget to see what the impact would be. Basically the district would be stopped in terms of moving forward. We might even regress a little bit but hopefully that will not happen. We would be pretty much status quo I believe based on the Mayor's number.

Alderman Levasseur asked did you include in your budget portables at Central to handle the excess people that are coming in and what was that amount.

Mr. Tanguay answered we had set aside \$300,000 and it would not cost that much money.

Alderman Levasseur asked so the \$300,000 was going to be for if you move and now it is going to be for portables.

Mr. Tanguay answered it looks that way right now because the cost that we have at Ash Street to accommodate the students would be too much.

Alderman Levasseur asked and that is with the Mayor's budget number. If your budget was included would you have been able to get rid of the portables and do other things?

Mr. Tanguay answered we would not need portables at Central, yes.

Alderman Levasseur asked you would have done something else. You either would have moved the children into Ash Street School or moved and that is what is included in your extra budget.

Mr. Tanguay answered yes. Let me clarify that. There is \$300,000 set aside but to rehab Ash Street would cost, I think, a lot more than that. In our budget number, we would have to accommodate...if you wanted to move Ash Street we would have to find the money elsewhere.

Alderman Levasseur asked but within the Mayor's budget you do have the money to handle the excess students coming into Central.

Mr. Tanguay answered yes with portables.

Alderman Hirschmann stated this kind of follows up on Alderman Lopez's train of thought with the alternative schooling. I don't know if Arthur Adamakos has this information, but I was told...I am going to watch a young man get his diploma next week at West and I was told that only 280 diplomas are going to be handed out or something in that range.

Mr. Adamakos asked at West, no. I don't have the exact number but it is in the 400 range.

Alderman Hirschmann stated I was told that the Class of 2001 started off with 600 kids and they are down to like 280 diplomas.

Mr. Adamakos replied off the top of my head I couldn't tell you, but I can find that information and get it to you.

Alderman Hirschmann stated it just seems like that 6% drop out number that you were floating before seemed way off.

Mr. Adamakos stated we don't want to confuse the graduation rate, which is the number of students who graduate within four years with the drop out rate. They are two different numbers. There are two different calculations in that, but 280 is very small. The senior class at West is 423 as of April 1.

Mayor Baines stated also you have a number of people who move out into other communities.

Mr. Adamakos replied also that freshman class number also includes the demotes from the previous year so the number of students who come in and go all the way through we have just begun to track this year.

Alderman Hirschmann stated I was advocating for Alderman Lopez's idea that there has to be some kind of night school or something for these kids who aren't making it.

Alderman Cashin stated it has been an interesting evening and a long one. I am not sure how I am going to start this but I am very concerned not only about the budget which is important but I think there is an underlying problem here that we have to discuss and I think it has to be discussed openly and I think the egos have to be put aside and we need to try and work on it and that is the animosity between both of these Boards and the administration for that matter. I will even go so far as to say and I realize that there are at least four lawyers in this room but I feel that there is a certain mistrust and as long as that is prevalent we can talk about the budget, we can talk about students and we can talk about anything we want but nothing is going to get solved and it is not going to get solved in the courts. I was told that there would be no court action as long as both of the attorneys were meeting. I was promised that only to find out that we did go to court and I don't mind telling you that upset me to no end. For 30 years I have been able to sit here and I have been able to support the education budget because I believed in it. Unless we can talk these problems out and work out the trust between both Boards, I am going to have a hard time with this budget. It is no longer something that we want to do, ladies and gentlemen, but it is something we have to do. If we are going to fulfill our responsibility to this community, this has to be done and it has to be done immediately. That being said, I thank you very much for the time.

Mayor Baines stated I just want to clarify a couple of things. First of all, the issue of an administrator authorizing spending in excess of what was appropriated without any authorization either from his own board which is what your auditor talked about...you didn't have that authorization and secondly under the Charter it is absolutely required that you come back to this Board so I don't see that being in dispute anywhere and I would hope that that kind of conversation ceases because no administrator has the authority to go out and spend money that is not appropriated. I give the example on the City side. We have excess revenues coming in for auto registrations. Let's say it is \$1 million. I cannot call up Frank Thomas and say go order 10 or 20 trucks. I would need to come back to my Board and say we have excess revenues coming in and I would like you to appropriate it to the Highway Department or some other department and go through a process. What we are objecting to is the unilateral action of an administrator looking at excess revenues coming in and spending it. That is the issue that we are dealing with. That is not allowed under the Charter of the City of Manchester that Mr. Cook and I and Alderman Lopez participated in writing and I think that is what is aggravating to Board members this evening and I wish that would cease. Secondly, the School District appropriation under my budget increases by \$8 million and only in City government does a 7.5% increase become a cut. I am intrigued by that across the Board. We hear people saying you have cut the budget. It is an \$8 million increase or 7.5%. I think things need to be put in perspective and you have presented a budget that does look at some growth. It is not a standstill budget and I do believe within the line items you do have the flexibility to allow the School District to grow but it is about priorities, it is about where money is spent and where money is allocated. We are having the same conversations on the City side. All City budgets under my budget were frozen at the operational expense of last year and in the previous year we cut it 3% from what they had the previous year and yet a lot of these budgets are still going up 6%, 7% and 8%. I know a number of my colleagues in Massachusetts when I was meeting with them in Washington in January where fretting that they were looking at 3% increases in their budgets. We tried to present a responsible budget to meet the needs of the children in our City and I think with good work and rolling up your sleeves and looking at priorities you can continue to grow the School District.

Alderman Vaillancourt stated just a real point and you mentioned the name Frank Thomas and this is kind of a cliffhanger. When we met with Frank we talked about certain chargebacks that he was going to have to discuss with the School District and I think as we go forward with his budget we should get an idea of whether you have met with him and discussed the sweeper and landscaper and the things that he wanted to do, which would directly affect his budget. I think before we move back into that deliberation we should get an answer as to what you have determined through him.

Alderman Wihby stated I talked to Frank today and he is going to put a letter together for the Board and his recommendation and I think the School Board went along with it is instead of doing the landscaping to use the money for two painters and a plumber I think. He said that the School Board was in favor of doing that with the same amount of money as the landscape proposal. He is going to put a letter together to this Board suggesting that we swap those two.

Mayor Baines stated I think Wayne and I are meeting with Frank tomorrow morning.

Alderman Vaillancourt stated I think when we talked with Frank he wanted some assurance that the School Board, if we cut their budget from what they requested, wouldn't take that out as part of what they had to make up.

Alderman Gatsas stated I will leave you with this thought Mr. Tanguay. I offered you an olive branch and you are still waiting for the declaratory judgement. I will end it with that.

Mr. Tanguay replied I regret what happened regarding the overexpenditure of funds, but the Board has been clear and adamant about getting resolution to those issues and I think the Mayor also wants resolution to the issues and we need to let that play out and see what happens.

On motion of Alderman Pariseau, duly seconded by Alderman Pinard it was voted to adjourn.

A True Record. Attest.

City Clerk